THE STOCK EXCHANGE

PAST AND PRESENT

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PREFACE.

THE substance of the following chapters has already appeared as a series of articles in *The Accountant.* This little book is not intended as a treatise on the law of the Stock Exchange, neither does it pretend to be a guide to investment and speculation. It is simply an attempt to give a short, but, it is hoped, reliable and complete account of the rise and progress of the Stock Exchange through the various stages of its development.

In the List of Authorities I have given the names of those works which I have found most useful in the study of the subject, and to all of them I am more or less indebted. Mr. Charles Duguid's "Story of the Stock Exchange" is a mine of valuable information, and from it I have derived considerable assistance in the preparation of these pages.

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CHAPTER I.

EARLY HISTORY OF SPECULATION

INTRODUCTORY.

IN these pages we propose to trace the history and development of the Stock Exchange, from the time when the fever of speculation commenced to take hold of the public down to the present day. The investment of money to-day is such a common and easy matter that it may surprise some to learn that even as late as the end of the seventeenth century men understood very little about the advantages of investing capital they may have saved. Indeed, it is recorded that the father of the poet Pope, at the time of the revolution of 1688, carried away with him a chest of £20,000, representing so much uninvested capital. To-day a man who did such a thing would be regarded as a madman. Anyone who has managed to save up a hundred, or even fifty, pounds looks about immediately for some investment which will yield him a fair interest, and the amount of capital lying idle at the present time is undoubtedly exceedingly small. The would-be investor to-day merely mentions to his broker, or even to his banker, the amount he wishes to invest and the security in which he desires to place it, and the thing is practically done. Had Pope's father possessed the facilities for investment which are open to the thrifty in these

days of grace, he would probably have been only too pleased to avail himself of them, instead of encumbering himself with his hoard in specie.

We shall endeavour in the course of these pages to show the steps by which this wonderful change, in regard to the opportunities for investment, has been brought about. The history of speculation is an exceedingly fascinating one, and the story of the rise and progress of the London Stock Exchange reads almost like a romance. It is somewhat hard to believe that the imposing building in which dealings in stocks and shares are now carried on has been evolved out of a coffee-house, and that the greatest financial institution of the day has grown out of the meetings of a handful of men in a City alley.

Early History of Brokers.

The word "broker" is derived from the old French *brocheor* or *brochière*, and meant originally a tapster who retailed wine from the tap. Later on, the term acquired the signification of any retail dealer or retailer. Thus in Langland's Piers Plowman (written at the end of the fourteenth century) we find the following: "Am ich brocor of bakbytynge and blame mennes ware." Etymologically "broker" is connected with the Latin *brocca*, which means a spike or piercing instrument (compare the English words "broach" and "brooch"), and subsequently the term came to denote a middleman in bargains, or general mercantile agent. Thus in Malynes' Ancient Law Merchant (published in 1622) we read that: "The common saying is, that

a craftie Merchant needeth no Broker"; and in Termes de la Ley (1641) we are told that: "The "true trade of a Broker is to beat, contrive, make "and conclude bargaines between Merchantes and "Tradesmen." When, in the reign of William III, dealings in stocks commenced, the term "stock-brokers" was applied to those who dealt and carried out transactions in stocks and shares.

From very early times legislation was passed to control the brokers in the metropolis. Thus, in the Statuta Civitatis London (13 Edward I), enacted in 1285, which consisted of "Articles which our Lord "the King doth command to be well kept in his "City of London, for the keeping and main-"tenance of his Peace," it is provided that "there shall be no Broker in the City, except "those who are admitted and sworn before the "Warden or Mayor, and Aldermen, on pain of "imprisonment."

By 5 Edward III it was ordained that no stranger should be a broker, and that brokers should take out their freedom of the City of London before being admitted. From a very early period, therefore, the brokers were under the control of the municipal authorities, and, as we shall see later on, it was not until the end of the nineteenth century that the stockbrokers succeeded in throwing off the yoke of obedience to the Lord Mayor and Aldermen.

An interesting reference to brokers and brokage (which meant the broker's commission) is to be

found in a statute of Richard II (10 Rich. II, 1, sec. 2), where we read of "Officers and ministers "made by brogage, and their broggors and those "who have taken brogage." Broggor is simply a corruption of broker, and brogage of brokage or brokerage, so that we have in this passage a vivid illustration of the fact that political corruption is not entirely a modern invention.

It is recorded that in 1442 the brokers petitioned Parliament for a more stringent enforcement of the statute of Edward III, but abuses seem still to have gone on, for in the first year of the reign of James I it was found necessary to pass an "Acte againste Brokers" (1 James I, c. 21). The Act recites that: "Forasmuch as of longe and ancient "tyme by divers hundred yeeres certaine Freemen "of the Citie had been approved by the Lorde "Mayor of the Citie and Aldermen in the Courte "of Aldermen to be Brokers within the said Citie "and Liberties of the same," nevertheless other people had been "abusinge the true and honeste ancient name and trade of Broker and Brokerage." Stringent regulations were therefore laid down in regard to the disposition of stolen goods, and the Act provided that no sale or pawning of any stolen goods to any pawnbroker should alter the property therein.

Early History of Speculation.

It has been truly said that "in the reign of William III the germs of speculation were sown."

The real history of stock-jobbing certainly commences from the time of the Revolution of 1688, and the chief cause of the growth of speculation at this period is to be sought in the financial needs of William of Orange, brought about by his costly foreign wars.

It should, however, be pointed out that men's speculative instincts had been aroused on the Continent early in the seventeenth century, for in 1634 there appears to have been what has been called the "tulip mania" in Holland. We are told that "tulips were as eagerly sought in 1634 as Railway "Scrip in 1844." Enormous sums were sunk in the cultivation of the flower, and the "tulipomania" spread from Holland to London and Paris. Although a lucky few managed to make a fortune, the inevitable reaction soon followed, and many speculators in this first craze were badly hit.

Moreover, in the latter part of the seventeenth century, a number of public companies had sprung up, with the East India Company as their nucleus. The East India Company had been incorporated by Queen Elizabeth in 1600, and, having made rapid strides, came prominently into public notice towards the end of the century, with the result that trading or speculating in stocks became common.

The real impetus to investment was, however, as we have already pointed out, given by the methods of borrowing adopted by William III for the purpose of raising money for Continental warfare.

William was not the first monarch who had been forced to look about for means of raising loans. We are told that borrowing for governmental purposes originated in the twelfth century in Venice. The Republic being hard pressed for money was obliged in 1156, 1480, and 1510 to levy forced contributions upon the citizens, giving them in return perpetual annuities at certain rates per cent. The offices opened for the payment of the annuities due under these loans subsequently became the Bank of Venice. This system of borrowing sums of money for the purposes of government was later adopted by Holland, and was introduced into England after 1688 by William III.

The problem of raising money was one which had presented itself to the Kings of England from a very early period. Thus we find Henry I, John, and Edward III deriving a considerable source of income from the business of money-changing, which they regarded as a royal monopoly. They established the office of Royal Exchanger in London and other towns. The position of Royal Exchanger was either farmed out by the Sovereign, or else a proportion of the profits had to be paid over to the King for the privilege. Edward III also borrowed money from the Italian bankers, and his failure to pay his debts contracted with the Bardi and Peruzzi, two of the most famous banking houses in Italy, caused the financial ruin of those two firms. Charles II obtained huge loans from the

caused something like a financial panic at the time. It remained for William III "to establish the "principle that faith to the public credit must be "inviolate," and his reign saw the restoration of government credit, which had been so seriously shaken by the conduct of Charles II in his financial transactions. The years which followed on the accession of William to the throne of England witnessed the creation of the National Debt, the foundation of the Bank of England, and the consequent growth of investment and speculation. We shall deal with these in detail in the next chapter.

CHAPTER II.

RISE OF STOCKBROKERS.

ORIGIN OF THE BANK OF ENGLAND.

IN the last chapter we mentioned that the foundation of the Bank of England, from which we may date the real beginning of the history of stockbroking, was occasioned by the financial needs of William III, brought about by his costly Continental wars. William had availed himself of various expedients for the purpose of raising money. He had tried borrowing by means of annuities granted either for life or for stated periods; public lotteries had also occupied his attention; and he had, in addition, made use of what was known as the Tontine. The idea of the Tontine originated and took its name from Lorenzo Tonti, a Neapolitan. Tonti, in the middle of the seventeenth century, suggested to Cardinal Mazarin the issue of annuities, with the benefit to the survivors of those incomes which fall by death. In 1689 Louis XIV created the first Tontine to meet his expenses, and his example was followed by William III. In consideration of a sum paid by a number of persons, Government granted each a life annuity. As the annuitants died, their shares were divided among the survivors, the liability of the Government ceasing on the death of the last survivor.

In 1694 the King required more than a million of money for his immediate necessities, and an ingenious scheme, put forward by William Paterson, a Scotchman, resulted in the foundation of the Bank of England and the creation of our National Debt. The sum of £1,200,000 was to be raised by voluntary subscription, and the subscribers were to be formed into a corporation, to be styled "The Governor and Company of the Bank of England." The corporation were to lend the whole of their capital of £1,200,000 to the Government, for which they were to receive interest at the rate of 8 per cent., and an additional £4,000 for management—that is, £100,000 per annum in all. These provisions were embodied in an Act of Parliament (5 & 6 William III, c. 20). The Royal Charter incorporating the Bank of England was signed on 27th July 1694, and is "the first instance of a debt bequeathed to posterity."

Although the Act provided that the £1,200,000 lent should be redeemable after 1705, upon a year's notice, when the corporation should cease, our National Debt has not been extinguished, but has continuously grown since 1694, and the Bank of England has gone on increasing in dignity and importance. It is interesting to learn that the amount of £1,200,000 asked for was subscribed in little more than ten days. The subscribers appointed Sir John Houblon as Governor, and Michael Godfrey as Deputy Governor. The business of the Bank was first carried on in the

Mercers' Chapel. The *locale* was then moved to Grocers' Hall, where it remained till 1732, in which year the first stone of the building now occupied by the Bank was laid. Originally established to advance the Government a loan, the management of the British National Debt has been entrusted to the Bank of England since its foundation.

This is not the place to discuss the advantages or otherwise of a national debt, which has been described as the first step in a nation's civilisation. The point with which we are here concerned is to note that in 1694 a loan to the Government was for the first time in this country raised by voluntary subscription, and shares in the loan offered to the public, and that the opportunities thus presented to investors of obtaining a first-class security must have given a great impetus to stock jobbing.

Rise of Stockbrokers.

The proof of the increase and growth of speculation towards the close of the seventeenth century is to be found in the fact that in 1697, only three years after the foundation of the Bank of England and the launching of the first Government loan, it became necessary to pass an Act of Parliament to put down the abuses of stock jobbing. This Act (8 & 9 William III, c. 32) is the first statute directed against stockbrokers, as distinct from general mercantile brokers. It is entitled: "An Act to restrain the numbers and ill practices of Brokers and Stock Jobbers." It provided that

no person should act as broker without a licence from the Lord Mayor of London. Every broker had to be admitted by the Lord Mayor, and had also to take an oath on admittance. The number of brokers was not to exceed one hundred, and the fees on admittance were limited to forty shillings. The brokers' names and places of abode had to be affixed on the Royal Exchange and in the Guildhall. No broker was to take more than ten shillings per cent. brokerage. Every broker after admittance was to carry about him a silver medal of the King's Arms, with his name inscribed on it, as a mark of his *bona fides*, and this token had to be shown on the completion of every transaction. Severe penalties were laid down for any breach of these regulations.

At the period with which we are now dealing (that is, the end of the seventeenth century) the transactions of the stockbrokers were carried on in the Royal Exchange. Mr. Francis, in his admirable "Chronicles and Characters of the Stock Exchange" (p. 22), gives the following picturesque description of this first resort of the stock jobbers :—

"Its walls resounded with the din of new pro-
"jects; nor could a more striking scene be
"conceived than that presented in the arena of this
"building. The grave Fleming might be seen
"making a bargain with the earnest Venetian. The
"representatives of firms from every civilised

"nation—the Frenchman, with his vivacious tones; "the Spaniard, with his dignified bearing; the "Italian, with his melodious tongue—might be "seen in all the variety of national costume; and "the flowing garb of the Turk, the fur-trimmed "coat of the Fleming, the long robe of the "Venetian, the short cloak of the Englishman, were "sufficiently striking to attract the eye of the "painter to a scene so varied. . . . The Royal "Exchange became the rendezvous of those who, "having money, hoped to increase it, and of that "more numerous and pretending class who, having "none themselves, try to gain it from those who "have."

It may be interesting to summarise the various kinds of investment open to the would-be speculator at this time. We have already referred to the annuities, tontines, and lotteries issued by William III as a means of drawing money to the Exchequer. These formed a somewhat hazardous speculation, but dealings in them were quite common. Then a good deal of business was done in the stocks of the East India Company, and of various other corporations which sprang up about this time. Mr. Duguid, in his "Story of the Stock Exchange" (p. 11), gives the following list of companies which were already in existence at the end of the seventeenth century, viz. :—The Blyth Coal Co., the Sea Diving Co., Pointz's Dredger Engine Co., Lofting's Fire Engine Co., the Greenland Fishing Co., the Glass and Glass Bottle Co., the Lutestring

Co., the Sword Blades Co., the Hudson's Bay Co., and the New River Co. The English "Funds," as shares in the National Debt were called, were even at this early date "assuming a greatness they was being recoined, and exchequer bills, principally were first introduced by Halifax in 1696, and soon became a favourite investment. In that year gold was being recoined, and exchequer bills, principally for £5 and £10, were issued on the security of Government, and took the place of coin, thus acting as State counters. The Treasury was empowered to contract with wealthy men for the supply of cash; and although these bills were originally at a discount, their credit rose rapidly, until they reached one per cent. premium. At first they yielded no interest; but, when they were reissued, interest at £7 12s. per cent. was paid, and exchequer bills were eagerly sought by investors.

A great deal of speculation was also done in what were known as "Seamen's Tickets," with which, from the time of Charles II, sailors had been remunerated. If the Government were short of funds it was quite a common thing for our defenders to find great difficulty in getting their paper money, when presented at the Treasury, converted into cash. They therefore were often forced to part with them at heavy rates of discount. Pepys, the celebrated diarist, relates that a friend of his heard English seamen, on board the Dutch vessels which entered the Thames, exclaim: "Now we do fight for dollars; heretofore we did fight for paper."

The capitalists who bought the tickets were able to bring pressure to bear on the Treasury to get them paid off, and may have even shared the discount with the officials of that department for the concession. Thomas Guy, the founder of Guy's Hospital, who died in 1724, is said to have made a great part of his vast fortune by his successful dealings in "Seamen's Tickets."

It will be seen, therefore, that there was no lack of opportunities for the "get-rich-quicks" of those days, and it is important to note that the rise of the moneyed class—or capitalists, to use a more modern expression—dates from the reign of the third William. The "nouveaux riches" of the seventeenth century possessed many of the characteristics of their later descendants. They lived in great state; they flattered and fawned upon those socially above them; they paid fabulous sums to the great artists of the day, in order that their living features might be perpetuated and handed down to posterity. They possessed great power financially, and were beginning to acquire the control of the money market, which has become a fine art in the hands of their successors. From what we read in contemporary writers, the process of "rigging the market" was already well understood and largely practised. "Tricks and stratagems were plentiful; the wary made fortunes, and the unwary were ruined." False rumours and reports were frequently spread in order to lower or raise the price of a particular

stock; and this was a much simpler matter in those days, when news travelled slowly, than it is now, when communication is easy and reports can be speedily confirmed and verified. Again, the National Debt had by the year 1697 reached the figure of twenty millions, and there was a deficit of five millions in the revenue. The result was that payments grew uncertain, and the moneyed men of the day, watching the course of events, made huge sums out of the difficulties of the Government.

Altogether the stockbrokers had, by 1698, got into thoroughly bad odour, and the members of the Royal Exchange clamoured for their exclusion from that building. The stockbrokers therefore thought it prudent and more dignified to beat a hasty retreat, and so we find them in 1698 quitting the Royal Exchange and moving to Exchange Alley, or 'Change Alley, as it was called in the popular phraseology of the day. With this shifting of the scene a new chapter in the history of stock jobbing begins.

CHAPTER III.

'CHANGE ALLEY.

THE STOCKBROKERS IN 'CHANGE ALLEY.

We have seen that in 1698 the stockbrokers changed their *locale* from the Royal Exchange to 'Change Alley. In spite of the outcry that had been raised against them, the municipal authorities seem to have been anxious to keep them at the Royal Exchange, and even went to the length of inserting a clause in the broker's bond forbidding him to do business in "the Alley." But such prohibition was useless, and 'Change Alley from 1698 became the scene of the stockbrokers' operations, and remained so for nearly a century, although it appears that a small business in foreign stocks continued to be carried on at the Royal Exchange for some years after the exodus of the stockjobbers. At first the brokers were wont to meet and do their business in the street, but it was soon found that the vagaries of the English climate are not favourable to open-air meetings. The consequence was that the more respectable of the stockbrokers congregated in the neighbouring coffee-houses, such as Jonathan's and Garraway's. Of these the former was by far the favourite, and soon became the recognised rendezvous of the dealers in stock, so that after a time "Jonathan's" and "the Alley" came to be used as interchangeable terms, to denote what we now call the "Stock Exchange."

Mr. Francis draws the following picture of 'Change Alley, which is as excellent as his description of the Royal Exchange, which we have already quoted :—

" 'Change Alley, so well known in Parliamentary " debates and the correspondence of the time as " 'the Alley,' was for a century the centre of all " dealings in the funds. Here assembled the " sharper and the saint; here jostled one another " the Jew and the Gentile; here met the courtier " and the citizen; here the calmness of the gainer " contrasted with the despair of the loser; and here " might be seen the carriage of some Minister, into " which the head of his broker was anxiously " stretched to gain the intelligence which was to " raise or depress the market. In one corner might " be witnessed the anxious eager countenance of the " occasional gambler, in contrast with the calm, " cool demeanour of the man whose trade it was " to deceive. In another the Hebrew measured his " craft with that of the Quaker, and scarcely came " off victorious in the contest; while in one place, " appropriated to him, stood the founder of " hospitals, impressing with eagerness upon his " companion the bargain he was about to make in " seamen's tickets."

References in contemporary literature show that the stockbrokers at this date did not enjoy an enviable reputation. A writer of the period tells us that : " They can ruin men silently, undermine

"and impoverish, fiddle them out of their money, "by the strange, unheard-of engines of interest, "discount, transfers, tallies, debentures, shares, "projects, and the devil and all of figures and hard "names."

Swift and the Brokers.

One of the most scathing attacks on the brokers of the early eighteenth century appeared in 1719, entitled "The Anatomy of Exchange Alley, or a System of Stock Jobbing." It was written by one who called himself "Jobber," but this pseudonym concealed the identity of no less distinguished a person than the great Dean Swift. The aim of the writer, as set forth in the title-page, was to prove "that scandalous trade (*i.e.*, stock jobbing), "as it is now carry'd on, to be knavish in its "Private Practice and Treason in its Publick." The opening passage runs as follows, and is typical of the worthy Dean's temper throughout the little book :—

"The General Cry against Stock Jobbing has "been such, and People have been so long, and so "justly Complaining of it as a publick Nusance, "and which is still worse, have complained so "long without a Remedy, that the Jobbers, "harden'd in Crime, are at last come to exceed "all bounds, and now, if ever, sleeping Justice will "awake, and take some Notice of them, and if it "should not now, yet the diligent Creatures are "so steddy to themselves, that they will some time

"or other make it absolutely necessary to the "Government to demolish them."

A little further on we come upon this amiable paragraph :—

"If you talk to them [the stock jobbers] of their "Occupation, there is not a Man but will own, "'tis a compleat System of knavery ; that 'tis a "Trade founded in Fraud, born of Deceit, and "nourished by Trick, Cheat, Wheedle, Forgeries, "Falshoods, and all sorts of Delusions ; Coining "false News, this way good, that way bad ; whisper-"ing imaginary Terrors, Frights, Hopes, Expecta-"tions, and then preying upon the Weakness of "those, whose Imaginations they have wrought "upon, whom they have either elevated or "depress'd."

Even making allowances for Swift's venom and his proneness to exaggeration, this book throws a flood of light upon the methods of stockbrokers in the early eighteenth century, and will well repay careful study by those interested in the subject. We are told how some wealthy simpleton was taken in by being "let into the secret" that the Pretender had been captured, and thereby induced to buy largely in South Sea stock. We are also informed of the "Machines and Contrivances of that Original of Stock-Jobbing, Sir Josiah Child." The latter was a well-known figure in the seventeenth century, and was a governor and considerable stockholder of

the East India Company.* The following passage in reference to Sir Josiah Child is worth quoting, as giving some idea of the methods in vogue at the time :—

" It would be endless to give an Account of the " Subtilties of that Capital Che . . . t, when he had " a Design to Bite the whole Exchange. As he was " the leading Hand to the Market, so he kept it in " his Power to set the Price to all the Dealers. The " Subject then was chiefly the East India Stock, " tho' there were other Stocks on foot too, tho' " since sunk to nothing; such as Hudson's-Bay " Company, the Linen Manufacture Stock, Paper " Stock, Salt-Petre Stock and others, all at this " Day worse than nothing, tho' some of them then " Jobb'd up to 350 per Cent. as the two first in " particular.

" But the East-India Stock was the main Point, " every Man's eye, when he came to Market, was " upon the Brokers, who acted for Sir Josiah. Does " Sir Josiah Sell or Buy? If Sir Josiah had a " Mind to buy, the first thing he did was to Com- " mission his Brokers to look sower, shake their " Heads, suggest bad News from India; and at " the Bottom it follow'd, I have Commission from " Sir Josiah to sell out whatever I can, and perhaps " they would actually sell Ten, perhaps Twenty " Thousand Pound; immediately the Exchange (for " they were not then come to the Alley) was full of

*Sir Josiah Child (1630-1699) is not to be confused with Sir Francis Child (1642-1713), the founder of Child's Bank.

"sellers; no Body would buy a Shiling, 'till per-
"haps the Stock would fall Six, Seven, Eight, Ten
"per Cent., sometimes more; then the Cunning
"Jobber had another Sett of Men employ'd on
"purpose to buy, but with Privacy and Caution,
"all the Stock they could lay their Hands on. . ."

Swift has also something to say about Sir H. ——— F———se, Sir Harry Furnese, a well-known speculator of his day, being the person referred to under this thin disguise. We learn that this worthy knight was able to maintain "such a constant Intelligence" in Holland, Flanders, Germany, Ireland, &c., that he several times brought the King accounts of battles fought, victories won, towns taken, &c., before the swiftest expresses of the King's own servants and generals could arrive; and on one occasion he was presented by the King with a diamond ring worth £500 for his early news.

It may well be that Swift's animosity to the stock-brokers was caused by his own bitter experiences in the money market. From a number of references in the "Journal to Stella," it is clear that Swift was frequently dabbling in stocks and shares. In a letter dated the 15th September 1710,* Swift mentions that he went with some friends to see the million lottery drawn at Guildhall, no doubt attracted thither by some personal interest in the

* The dates mentioned are those given in the edition of the "Journal to Stella" edited by George A. Aitken.

matter. Bank stock seems to have been, his favourite investment. In a letter of the 26th October of the same year we find him writing to Stella :—

" If the fellow that has your money will pay it, " let me beg you to buy Bank Stock with it, which " is fallen near thirty per cent. and pays eight " pounds per cent. and you have the principal when " you please : it will certainly soon rise. I would " Lady Giffard would put in the four hundred " pounds she owes you, and take the five per cent. " common interest, and give you the remainder. I " will speak to your mother about it when I see her. " I am resolved to buy three hundred pounds of it " for myself, and take up what I have in Ireland ; " and I have a contrivance for it, that I hope will " do, by making a friend of mine buy it as for him- " self, and I will pay him when I can get in my " money."

On November 8th 1710, he writes again : " I " writ to her [Stella's mother] four days ago, to " desire her to break it to Lady Giffard, to put " some money for you in the Bank, which was then " fallen thirty per cent. Would mine had been " here, I should have gained over hundred pounds, " and got as good interest as in Ireland, and much " sooner."

A few days later (on November 13th) Swift writes :—

" I found Bank Stock was fallen thirty-four in " the hundred, and was mighty desirous to buy it ; " but I was a little too late for the cheapest time,

"being hindered by business here; for I was so
"wise to guess to a day when it would fall. . ."

Swift goes on to say that eventually he succeeded in buying three hundred pounds worth of Bank stock, at 100½ per cent, and on December 23 he writes, jubilantly: "Bank Stock is 105, so I may get £12 for my bargain already." His letter of July 14th in the following year is not so cheerful, for he tells us: "Bank Stock is fallen three or four "per cent. by the whispers about the town of the "Queen's being ill, who is, however, very well." *

Swift's financial operations were not, however, confined to Bank Stock. On November 12th 1711 he writes: "I am resolved to buy five hundred "pounds South Sea Stock, which will cost me three "hundred and eighty ready money; and I will make "use of the bill of a hundred pounds you sent me, "and transfer Mrs. Walls over to Hawkshaw; or, "if she dislikes it, I will borrow a hundred pounds "of the Secretary and repay her." This dealing nearly landed Swift in disaster; for it appears from a letter of January 12th, of the following year, that Stratford, to whom Swift had handed the cash for the purpose of making the purchase, got into serious financial difficulties just at this time, and his client felt a good deal of anxiety as to the safety of his money. From a letter on the following day, however, we learn that the transfer of Swift's stock

* The saying, "Queen Anne is dead," is believed to have originated about this time, when so many false rumours concerning the Queen's death were spread, in order to lower the English funds.

had been duly made, and so he was safe. But he cannot help adding: "This has been a scurvy "affair. I believe Stella would have half-laughed "at me, to see a suspicious fellow like me over-reached."

Swift was no doubt a frequent visitor to the Alley. On one occasion (6th January 1711) he tells us: "I went to Garraway's to meet Stratford "and dine with him; but it was an idle day with "the merchants, and he was gone to our end of the "town."

There is surely a touch of personal feeling in the following scathing lines from Swift's "Book of Days" (I, 146):—

> "There is a gulf where thousands fell,
> A narrow sound, though deep as hell,
> ''Change Alley' is the dreadful name."

CHAPTER IV.

THE EARLY YEARS OF THE EIGHTEENTH CENTURY.

Bulls and Bears.

It was during the early years of the eighteenth century that the terms "bull" and "bear" (now so common in Stock Exchange parlance) commenced to come into vogue. A "bear" is a speculator for a fall— that is, one who sells stock for delivery at a future date in the expectation that meanwhile prices will fall, and that he will be able to buy in, at a lower rate, what he has contracted to deliver at a higher price. A "bull," on the other hand, is a speculative purchaser with a view to a rise—that is to say, he buys stock, for which he does not mean to pay, in the hope of reselling at a profit. With regard to the derivation of the term "bear," it is probable that the original phrase was "to sell the bearskin," and that it originated in the well-known proverb: "To sell the bear's skin before one has caught the bear." A "bull" being one who tries to raise the price of stock, there may be a reference in the expression to this animal's habit of tossing people on its horns.

The earliest reference to "bear" in the technical sense is to be found in *The Tatler* (No. 38), where Steele writes (July 7th 1709): ". . . Being at "that general mart of stock-jobbers called

"Jonathan's . . . it happened that he bought "the bear of another officer." A little further on Steele remarks: "I fear the word 'bear' is hardly "to be understood among the polite people; but "I take the meaning to be, that one who insures "a real value upon an imaginary thing, is said to "sell a bear, and is the same thing as a promise "among courtiers, or a vow between lovers."

The plays of the period are full of references to "bears" and "bulls." Thus in "Country Lasses," a play by C. Johnson (1714), we read the following in the opening scene: "Instead of "changing honest staple for gold and silver, you "deal in 'bears' and 'bulls.'" In Mrs. Centlivre's play called "A Bold Stroke for a Wife," which first appeared in 1717, the first scene of the fourth act is laid in Jonathan's coffee-house, and is no doubt a very true picture of this resort of the stock-jobbers. In this scene one stockbroker asks another: "Are you a 'bull' or a 'bear' to-day, Abraham," to which the other replies: "A 'bull,' faith—but I have a good put for next week." "Put" is to-day a well-known term on the Stock Exchange, meaning an option to sell a stock or share at a price during a stated period,* and its use at this early period is extremely interesting.

In Cibber's play, "The Refusal" (1721), we find the following interesting passage: "And all

*The opposite of "put" is "call," that is, an option to buy at a fixed price during a stated period.

"this out of 'Change Alley?—Every shilling, sir, "all out of stocks, tuts, bulls, rams, bears, and "bubbles."

Swift, in "The Anatomy of Exchange Alley" (1719), to which we have already referred, tells us that "those who buy Exchange Alley bargains are styled buyers of Bear-Skins."

STOCK-JOBBING IN THE EARLY EIGHTEENTH CENTURY.

Having examined a few of the references in contemporary literature to 'Change Alley and its denizens, we turn to a consideration of the history of stockjobbing during the early eighteenth century.

The first foreign loan in this country was negotiated in 'Change Alley in 1706, a sum of £500.000 being lent, at the instance of the Duke of Marlborough, to the Emperor of Germany. The loan was to be for eight years, at 8 per cent., on the security of the Silesian revenues.

In the following year. 1707, an Act (6 Anne, c. 16) was passed, by which the hold of the municipal authorities on the stockbrokers was further strengthened. The Act was entitled "an Act for "repealing 1 James I, c. 16, an Act for the well-"garbling of spices, and for granting an equivalent "to the City of London by admitting Brokers." The garbler of spices was an officer of great antiquity in the City of London, who was empowered to enter any shop or warehouse to view and search

drugs, spices, &c., and to garble or sift them. This right had been a great source of profit to the Corporation, and, therefore, when the Act conferring the privilege was repealed, it was necessary to give them a *quid pro quo*. The statute of 1707 was accordingly passed, by which every broker had to be admitted by the Court of Mayor and Aldermen, and not only to pay forty shillings on admission, but also forty shillings yearly. These extra fees no doubt amply compensated the authorities for their loss.

On the 26th March 1714 appeared the first number of an "official list," giving information as to current prices of stocks. It was called "A Course of Exchange," being compiled by John Freke, Broker. India, Bank, African, and South Sea Loan Stocks were quoted, and the course of exchange on thirteen Continental centres was given. It was published twice a week, giving the quotations for each of the three preceding days. The charge first announced was three shillings a quarter, but after the first month it was reduced to half-a-crown a quarter. The lists were bound in annual volumes, containing 105 sheets, and sold for ten shillings, the first volume being dedicated to Sir Gilbert Heathcote, Knight and Alderman of the City of London.*

The year 1719 saw the collapse of what was known as the "Charitable Corporation," which had

* These details are taken from Mr. Duguid's "Story of the Stock Exchange" p. 29.

been formed for the purpose of making loans to the poor at moderate interest. A capital of £30,000 was immediately subscribed, and a charter obtained. At first all went well, and the corporation really seemed to be doing a large amount of good. But in 1719 the capital was increased to £600,000, and the corporation commenced to act as bankers and receive deposits. Suddenly it was announced that the cashier and one of the chief officers had disappeared. An inquiry was held, and it was discovered that out of a capital of more than half-a-million only £30,000 remained. Moreover, the books were found to have been falsified, and money lent to the directors on fictitious pledges. The collapse of the corporation caused widespread distress, and numbers of small capitalists were ruined. The estates of those implicated were confiscated; and although eventually a dividend of nearly ten shillings was paid, "the fraud of the Charitable "Corporation was remembered long after the evils "caused by it had ceased to exist."

CHAPTER V.

THE SOUTH SEA BUBBLE.

We are now brought to the history of the South Sea Bubble, which is usually regarded as the first real financial panic in this country. The South Sea Company was formed in 1711, and was granted a monopoly of British trade with South America and the Pacific Islands. Its promoters took over nearly £10,000,000 of the National Debt, on which they were to receive interest at the rate of 6 per cent., with an additional £8,000 a year for the expenses of management, the interest being secured on certain customs duties. The original idea of the South Sea Company is said to have owed its origin to Swift, who frequently discussed it with Harley, brother of the Earl of Oxford. The company was fairly successful, and in 1717 was able to advance a further sum to the Government.

At the end of 1719 the directors of the company put before the Government a more ambitious scheme. In return for further concessions the company proposed to take over the whole of the National Debt, which at this time had reached the figure of about £31,000,000. The greater part of this amount consisted of terminable annuities—*i.e.*, money lent to the State in return for a fixed income for life. The company offered to pay the Government £3,500,000, receiving interest at the rate of 5 per

cent. until 1727, when it was to be reduced to 4 per cent. By this scheme the State would get rid of the onerous and unpopular National Debt, while the company hoped to be able to persuade the Government annuitants to exchange their annuities for South Sea Stock. Although the Bank of England bid keenly against the South Sea Company with an offer of £5,000,000 for the same privilege, the company eventually gained the day with an offer of £7,567,000, which was finally accepted. The scheme was vigorously opposed by Sir Robert Walpole.

The necessary Act of Parliament was passed in April, 1720, and in a few weeks the directors had persuaded more than one-half of the Government annuitants to become shareholders in the company. South Sea Stock rose steadily from 128½ at the beginning of the year to 330 in March. In April two and a quarter millions of stock were offered to the public, and sold at 300. In May the price rose to 550, and in July it reached 1,000, at which tremendous premium five millions of stock were disposed of by the directors.

The extraordinary success of the South Sea Company caused the formation of many similar undertakings, and the nation went mad in its desire for speculation. Hundreds of new companies were formed, and secured the support of the nobility, and even of royalty, the Prince of Wales (afterwards George II) becoming governor of the Welsh

Copper Company. Some of these companies were floated with the most ridiculous objects; one was "for a wheel for perpetual motion," while another was for a "design which will hereafter be promulgated." It seemed as though the "golden age" had literally come again, and everyone looked about for the means of making a fortune quickly:

> "Millions of suppliant crowds the shrine attend,
> And all degrees before the goddess bend;
> The poor, the rich, the valiant, and the sage,
> And boasting youth, and narrative old age."

It is said that Sir Isaac Newton, when asked what would be the result of the people's infatuation at the time, replied that "he could calculate the "motions of erratic bodies, but not the madness of "a multitude." The results proved the truth of Newton's dark saying.

All this time South Sea Stock was going up merrily, and by September it is said to have reached the extraordinary figure of £2,000. Then suddenly it commenced to decline, and its fall was as rapid as its rise. In a few days it had fallen to £175, and by September 29th it had sunk to £150. Thousands upon thousands were ruined, and a number of the leading bankers and goldsmiths, who had lent large sums upon the security of the stock, were forced to suspend payment.

It was only to be expected that, amid the general ruin, cries should have been raised for the punishment of those responsible for the gigantic swindle.

Parliament was summoned on the 8th December 1720, and the House of Commons appointed a Committee of Secrecy to inquire into the disaster. The Committee's report disclosed some singular proceedings. It appeared that false and fictitious entries had been made in the books. Blank spaces were discovered where names should have been. Erasures and alterations were plentiful, and leaves had been torn out from some of the Ledgers. It was also shown that corruption and fraud had taken place on a large scale, and that the concessions obtained by the directors had been secured by lavish gifts to Ministers. The man most deeply implicated was John Aislabie, the Chancellor of the Exchequer. He was found guilty by the House of Commons of "the most notorious, dangerous, and infamous corruption," and was expelled from the House and imprisoned.

In January 1721 an Act was passed forbidding the directors from leaving the kingdom, and compelling them to declare the value of their estates, which were afterwards confiscated. One of the directors, a Mr. Sawbridge, petitioned the House of Commons for leniency. An investigation of his accounts took place, and accountants will remember that the report thereon made by Charles Snell, "Writing Master and Accomptant," is the earliest existing record of the employment of a professional accountant's services.

CHAPTER VI.

FROM THE SOUTH SEA BUBBLE TO THE FIRST STOCK EXCHANGE.

SIR JOHN BARNARD'S ACT.

ONE would have thought that the collapse of the Charitable Corporation, and the bursting of the South Sea Bubble, following so close upon each other, would have tended to check the fever of speculation which seemed to have seized hold of the English nation. The public, however, appear to have profited but little by the bitter lessons taught by the two serious financial panics to which we have referred, and speculation seems to have gone on merrily as before. It was in the hope of putting down the mania for speculating that Sir John Barnard, in 1734, introduced, and succeeded in carrying through Parliament, his famous measure against the stockbrokers. The Act (7 Geo. II, c. 8) is entitled "An Act to prevent the infamous practice of stock-jobbing." The preamble states that "great inconveniences have arisen and do daily "arise by the wicked, pernicious, and destructive "practice of stock-jobbing, whereby many of his "Majesty's good subjects have been and are "diverted from pursuing and exercising their "lawful trades and vocations, to the utter ruin of

"themselves and families, to the great discouragement of industry, and to the manifest detriment of trade and commerce." The first section of the statute declares void all wagers relating to the value of stocks. The Act, however, was mainly directed against "time-bargains"—*i.e.*, payment of differences on the price of stock without any stock actually passing between the parties. Time-bargains (which were known as the "race-horses of 'Change Alley") probably had their origin when the transfer of Government stock was impossible for six weeks at a time, this being the period during which the books of the Bank of England were closed in preparation for the distribution of dividends. Section 5 of the Act provides that a penalty of £100 is to be paid for giving or receiving money to compound differences relating to stock not actually delivered. The measure was received with something like consternation by the brokers, and all kinds of abuse and invective were heaped on the author of the unpopular Act. It was, however, soon discovered that it would be easy to "drive a coach and four" through the statute, for the Judges held that the Act was only meant to apply to dealings in the *English funds*, and that speculative bargains in the funds of foreign Governments, as well as in railway stocks and shares, and in all cases in which there was a *bonâ fide* intention to deliver, although the vendor was not actually in possession of the security, were perfectly valid.

The Act was originally passed for three years, but was made perpetual by 10 Geo. II, c. 8. It was not repealed till 1860.

THE NATIONAL DEBT.

Since its creation in 1694, the National Debt had been steadily growing, and the wars with Spain and France (1740-1747) are said to have added another thirty millions to it. Sir John Barnard had unsuccessfully advocated a scheme for the reduction of interest on the National Debt, but his idea was adopted and carried out in 1750. The rate of interest was to be reduced from four to three per cent., but shareholders in the Funds could at their option receive the whole of the principal at par. If they declined to do so, the interest was to be lowered for seven years (that is, from 1750 to 1757) by only one-half per cent., but after 1757 it was to be reduced to three per cent. Thus were the famous three per cent. Consolidated Annuities (popularly known as Consols) created, and this rate of interest remained for more than a century.

THE FIRST BOOK ON STOCK-JOBBING.

In 1761 there appeared a little book entitled "Every Man His Own Broker," which is the first work in which advice to investors is given. The writer produced the first edition under the name of "Philanthropos," but in subsequent editions his name appeared. The author was Thomas Mortimer, who occupied the post of Vice-Consul for the

Austrian Netherlands. The full title of the book is "Every man his own broker; or a Guide to "Exchange Alley. In which the nature of the "several Funds, vulgarly called the Stocks, is "clearly explained; and the Mystery and Iniquity "of Stock-Jobbing laid before the Public in a New "and Impartial Light." In the preface the author tells us that he "thinks it his duty previously to "acquaint the public that, if the old Latin maxim "be true, which says *experientia docet*, he is "sufficiently master of his subject," and he adds a note to the effect that "the author has lost a "genteel fortune, by being the innocent dupe of "the gentlemen of 'Change Alley." The book we are considering is somewhat different in scope from "The Anatomy of Exchange Alley" (1719), which was simply an attack on the brokers; for although a chapter in Mortimer's work is devoted to an exposure of the malpractices of the stock-jobbers, the author gives really practical advice to the public who desire to invest their money, so that they may be spared his own unfortunate experiences. He dwells on the advantages of the English Funds as securities, and suggests that investors should deal directly with the officials at the Bank of England. "Every man his own Broker" appears to have enjoyed a wide popularity, going through several editions, a fifth edition being called for in the year following its publication, and a thirteenth edition appearing as late as 1801.

Some colour was lent to Mortimer's description of the iniquities of the stock-jobbers by the fact that only a year after the first appearance of his book, one John Rice, a broker, was executed for misappropriating a client's money.

FINANCIAL CRISIS OF 1772.

The year 1772 saw another serious financial panic. The main cause of the crisis was the failure of the Bank of Douglas Heron & Co., which had been established in 1769, and was looked upon as an absolutely safe and flourishing concern. The collapse of this bank caused widespread panic. "The shock was felt throughout the Empire. The "Royal Bank of Scotland tottered to its base; the "banking-houses of England shook with a well-"grounded fear; and the Bank of England was "beset on all sides for assistance." It has been pointed out that the financial crisis bore a remarkable resemblance to those of the nineteenth century, being to a large extent brought about by wild speculation. Money was easily borrowed on very scanty security, and a great deal of imaginary capital was raised. Many lived far beyond their means, counting on future gains which were never realised; so that it was no wonder that the crash came.

The following year (1773) saw the establishment of the first "Stock Exchange."

CHAPTER VII.

FOUNDATION OF THE LONDON STOCK EXCHANGE.

THE FIRST STOCK EXCHANGE.

WE are now brought to the establishment of the first "Stock Exchange." Jonathan's Coffee House, which had been the chief resort of the stockbrokers from the end of the seventeenth century, was burnt down in 1748, but "New Jonathan's" took its place, the new rendezvous of the brokers being situated at the corner of Threadneedle Street and Sweeting's Rents, or Sweeting's Alley. On July 15th 1773 a newspaper of the day made the following announcement: "Yesterday the brokers and "others at New Jonathan's came to a resolution "that instead of its being called New Jonathan's it "should be called The Stock Exchange, which is "to be wrote over the door. The brokers then "collected sixpence each, and christened the house "with punch."

The rooms at New Jonathan's soon came to be known as "The House," as well as "The Stock Exchange." Mr. Francis Levien, the Secretary of the Stock Exchange Committee, prepared a memorandum for the information of the Royal Commission on the London Stock Exchange of 1877,* and

* See Parliamentary Papers (1878), XIX, 263.

to this valuable document we owe most of our knowledge of the history and development of the Stock Exchange from 1773 onwards. It appears that at this time a certain amount of stock-broking business was carried on at the Rotunda of the Bank of England, but this "related to small transactions "by the public, and to the immediate transfer of "stocks in the books of the Bank," whereas "the "Stock Exchange Rooms afforded a ready market "for the operations of the bankers, merchants, and "capitalists connected with the floating of the "numerous loans raised at that period for the "service of the State."

We do not know very much about the management or constitution of this first Stock Exchange, but it is on record that it was under the control of a "Committee for General Purposes," whose functions "were then, as now, judicial as regards "the settlement of disputed bargains, and adminis- "trative as regards rules for the general conduct of "business and for the liquidation of defaulters' "accounts." The expenses of management were defrayed by the voluntary subscriptions of the members, and any person was admitted to the rooms on payment of sixpence.

The New Stock Exchange.

Early in 1801 it became apparent that the rooms did not afford adequate accommodation for the transaction of the greatly increased business arising out of the creation of loans. It was, moreover, felt that

the indiscriminate admission of the public was likely to expose the brokers to the loss of valuable property. Under these circumstances Mr. William Hammond, and a few others, acquired a site in Capel Court (described as "a centrical situation"), and succeeded in raising a capital of £20,000 in 400 shares of £50 each, with which a new undertaking was founded, and to which the business of the old rooms was eventually transferred. The first stone of the new building was laid in May 1801. A Committee for General Purposes, consisting of the nine promoters of the scheme and twenty-one other proprietors, was formed, which proceeded to elect members by ballot at a subscription of ten guineas each. A deed of settlement was drawn up and executed in March 1802. The deed recited that "whereas the Stock Exchange in Threadneedle' "Street, where the stockbrokers and stock-jobbers "lately met for the transaction of their business, "having been found to be inconvenient," William Hammond and others had, upon the site in Capel Court already mentioned, "caused to be erected a "spacious building for the transacting of buying "and selling the public stocks or funds of this "kingdom, and the same is now nearly finished and "is called the Stock Exchange, and is intended to "go under that appellation."

The deed also provided that the management, regulation, and direction of all the concerns of the undertaking were to be vested in a Committee, consisting of thirty members or subscribers, to be chosen

annually by ballot on the 25th March; while the treasuryship and management of the building were placed under the sole direction of nine trustees and managers (separate from the Committee) as representatives of the proprietors.

Under these conditions the new Stock Exchange was opened in March 1802, with a list of about 500 subscribers. The objects of the undertaking may be described as follows:—

(1) To provide a ready market.

(2) To make such regulations as will ensure the prompt and regular adjustment of all contracts.

Such regulations were first codified and published in 1812, being altered from time to time according to requirements.

A new deed of settlement was executed in 1876, which substantially reproduced the provisions of the first deed of 1802.

There are at present 20,000 shares of £12 each paid, with unlimited liability, in the Stock Exchange, and over £400,000 debentures outstanding. A dividend of about £8 per share is paid. Shareholders must be members of the Stock Exchange, and any shareholder ceasing to be a member must transfer his shares to a member within a year. The holding of any one shareholder is limited to 200 shares.

The present constitution and management of the Stock Exchange remain substantially as laid down in 1802, and we shall devote the next chapter to a detailed explanation of the inner working of this great financial machine. We may mention here that the entrance fee of new members* is now 500 guineas, and every member must hold at least three shares in the Stock Exchange (Company). He must also find three members who will become sureties for him in a sum of £500 each for four years. He must also get the nomination of a retiring member, such nomination being valued a few years ago at £600. New members pay a subscription of forty guineas per annum

*We are here only speaking of ordinary new Members There are special regulations with regard to those who have served as Clerks on the Stock Exchange

CHAPTER VIII.

THE LONDON STOCK EXCHANGE.

Constitution and Management of the Stock Exchange.

Committee for General Purposes.—Practically the whole of the internal management of the Stock Exchange is regulated by the Committee for General Purposes. This Committee consists of thirty members, who are elected annually in March by the members by ballot, and serve for twelve months, being eligible for re-election. The Committee, therefore, represents the members or subscribers, while the managers, of whom we shall speak presently, represent the shareholders or proprietors. The duties of the Committee, as defined by Rule 5 of the "Rules and Regulations of the Stock Exchange," are to regulate the transaction of business on the Stock Exchange, and to make regulations for the election of the Committee, and for the admission, expulsion, or suspension of members and the clerks, and also in regard to the mode in which Stock Exchange business shall be transacted, and generally for the good order and government of the members of the Exchange. The Committee decides all questions between, and complaints against, members, and determines whether its rules have been complied with by Governments and companies which request quotations of their stocks in

the Official List. "The great principle upon which "the Committee acts, and to which most of its "regulations are directed, is the inviolability of "contracts." The Committee elects its own Chairman, Deputy-Chairman, and Secretary.

Managers.—The Managers are nine in number, and are elected in threes by the shareholders for five years. They are responsible for the upkeep of the Stock Exchange buildings, and fix the fees for the admission of new members. They also appoint most of the officials, with the exception of the Secretary to the Committee for General Purposes.

Brokers and Jobbers.—The members are divided into two classes, the dealers or jobbers, and the brokers. This division, we may note, is peculiar to the London Stock Exchange, and does not exist in regard to provincial, colonial, or foreign exchanges.

The brokers act as agents for the investing public, and buy or sell on commission, while the dealers or jobbers actually make the purchase or sale for the brokers. The brokers, therefore, as it were, feed the jobbers, just as a solicitor feeds the barrister. The jobbers take up a definite position in "The House," the floor of which is divided into a number of separate markets. Each jobber attaches himself to the particular market in which he does business, so that a broker, when he wishes to make a deal with a jobber, knows exactly where to find him. The dealer's business therefore is practically all transacted in the House, while the broker's is done at

his office, for it is there that he sees his clients, and obtains orders for the sale or purchase of stock

A member cannot act both as a broker and a dealer at the same time, though he can change over from one business to the other, there being no formal distinction between the two, so far as membership of the Stock Exchange is concerned.

Clerks.—There are two kinds of members' clerks, viz., authorised and unauthorised. Both are admitted to the House, on the written application of their employers. The number of clerks admitted is limited by the rules. The authorised clerks have power to deal for and bind their employers, and this authority continues until revoked by letter to the Committee. No clerk may be authorised to transact business until he is twenty-one years of age, and has been admitted to the House or Settling Rooms for two years. Authorised clerks can only transact business as a dealer in securities other than those in which their employers deal. Clerks, whether authorised or unauthorised, are not permitted to make bargains in their own names.

Course of Business.

The course of business in regard to the purchase or sale of stock is as follows:—The would-be vendor or purchaser, not being a member of the Stock Exchange, instructs a broker to act for him, telling him the security in which he desires to deal. The broker goes down to The House, seeks a jobber who does business in the particular class of security,

and asks him to "make a price in it," without stating whether his instructions are to sell or purchase. The jobber then names two prices—one at which he is prepared to buy, the other at which he will sell, the difference between the two prices being known as the "turn of the market." The jobber is, of course, not compelled to "make a price", but once he has done so, it is open to the broker to declare himself either a buyer or seller at the price quoted, and the jobber is bound to accept the contract, up to certain amounts, which are fixed by the Stock Exchange Rules When the bargain is concluded, it is usual for the broker and jobber to make a memorandum in their note-books, but no written contract passes between them. As a rule, however, the contract is "marked"—that is to say, the member places in a box in The House a slip, on which is written the name of the security dealt in, with the price, the latter being then recorded by the official clerk on the "board."

All bargains, unless otherwise agreed, are for completion on the settling day of the current account, except in the case of securities transferable by deed, and bearer securities, which are for completion on the settling-day of the ensuing account. The settling-days (also known as account days) are fixed by the Committee, and notice is given by the Secretary of the days appointed. The settling or account-day is the last day of what is known as the settlement. The settlement occupies three days, known respectively as (1) contango or carrying-over

day, (2) name day or ticket day, and (3) settling or account-day, sometimes also called pay-day.

As already stated, all transactions, with certain exceptions, are understood to be made for settlement on the account-day next ensuing. This means that, on the particular settling day, all vendors of stock will be prepared to deliver the stock, and the purchaser will be ready to pay for it. This arrangement of fixed settling-days possesses the great advantage of simplifying Stock Exchange transactions; for if during the interval between one account-day and the next there have been several dealings between members in similar stock, only the balance actually passes.

In some cases it may not be convenient to the parties to have a final settlement of the deal on the following account-day; for the seller may not wish to deliver, or the buyer may not wish to take over, on the particular day, the securities dealt in. For instance, in the case of stocks sold, there is often some delay in delivery, owing to the securities having to be obtained from abroad. To meet such cases, completion is often postponed to the next settling-day, the process being known technically as "carrying-over," or "continuation."

It should be noted that neither party is bound to consent to carry-over, unless he has expressly agreed to do so; but in practice, in the absence of special circumstances, such as an abnormal scarcity of the particular security, it is generally possible to effect

a continuation, if not with the original parties, at any rate with someone else.

The first step in the process of carrying-over is obviously the fixing of definite prices at which bargains are to be continued. These are known as "making-up prices," and are usually based upon the actual market price at noon on the first day of the particular settlement. They are fixed by the Clerk of the House, a list of making-up prices being regularly published, and all continuations must be effected at these prices. The carry-over price being thus fixed, the original contract is in effect cancelled, and the bargain carried over, at the making-up price, to the following account day. A fresh contract is thus really entered into, and it is a recognised rule that the difference between the original price at which the deal was effected, and the carry over price, has to be paid immediately—that is, on the settling-day of the current account.

In addition to the payment of differences, a further consideration has to be paid for the accommodation afforded by the continuation, this consideration being known, in one case, as a "contango," in another as a "backwardation." If the accommodation is for the convenience of the purchaser, who does not desire immediately to take up the stock, then the amount paid for the concession is known as "contango." If, on the other hand, owing to a scarcity of the particular kind of security, the vendor is unable to deliver, or thinks

he can do better by postponing delivery, then he has to pay the purchaser a "backwardation." The rates of contango and backwardation vary according to the nature of the security, the state of the money market, and the condition of the market for the security in question.

We have already pointed out that the Stock Exchange Settlement consists as a rule of three days,* and it may be of interest to describe in greater detail what takes place on each of these days. On the first day, known as "contango day," or "carrying-over day" (sometimes as "making-up day"), operations are commenced in order to facilitate the work of the final day of the settlement. If a member has sold and bought certain stock, steps are taken to ascertain if the vendors and purchasers have had other transactions which may cancel each other, and so the amount of stock is "made up" without any stock actually passing. On contango day, moreover, the make-up prices are taken for the purpose of continuation, a process already described.

On the second day, known as "ticket day," or "name day," the ultimate buyers and sellers are brought into touch with each other. Brokers are compelled to issue tickets bearing the names of those to whom stock is to be transferred before noon on ticket day. These tickets are passed round until they reach the broker who has ultimately to deliver. He prepares transfers accordingly and secures the

*In the case of mining securities there is an extra "ticket day," and in the South African market there is also a preliminary "Contango day."

transfer by the transferor. The Settlement Department has been instituted in order to bring together the ultimate parties, without the cumbrous device of passing round tickets. Any member can belong to the Settlement Department on payment of a subscription Subscribers are furnished with forms, divided into two columns—one for purchases, the other for sales, the subscriber enters on one side the names of members from whom he has purchased during the account, and the amount of each security bought, and on the other side the names of members to whom he has sold, together with the amounts sold. These forms are returned to the department, and a special staff of clerks collate them and trace the bargains through. The Settlement Department thus acts for brokers as a sort of "Clearing House."

On the third and last day of the settlement (known as account day, settling day, or pay day), the actual delivery of securities takes place, and differences arising out of "carrying over," which we have described above, have to be paid. Delivery, which is the final step in the bargain, depends upon the nature of the securities which have been dealt in.

So far, we have assumed that the transaction consists of an out and-out contract for purchase or sale. There is, however, another form of contract largely made use of on the Stock Exchange, known as an "option," by which a person in consideration for a payment of what is called "option money" acquires the right to deal with another at an agreed price in certain stock up to a certain

amount, on a fixed future date. There are three kinds of options: there is the "put," that is, the right to sell stock at a fixed price on a certain day; there is the "call," which is the right to buy or call for stock on a fixed day; thirdly, there is the "put and call," that is, the right to buy or sell on a certain dav, and for which the option money is usually double that of a put or call.

Having described the constitution of the Stock Exchange, and the course of business, we shall devote the next chapters to a consideration of the chief events in the history of the Exchange from its opening in 1802, with special reference to the great financial crises of the nineteenth century, and the causes which led to them.

CHAPTER IX

THE FIRST QUARTER OF THE NINETEENTH CENTURY.

IN 1801 the peace made with France exercised, as might be expected, a very considerable effect upon the Stock Exchange. After the long and costly war in which this country had been engaged, people looked forward to a period of peace and prosperity, and it was hoped that England was about to enter on an epoch of renewed commercial activity. The result was that the announcement that a peace had been concluded with the French caused the English funds to jump up suddenly from 59 to 66½, and this was followed on the next settling day by twenty-one Stock Exchange defaults.

The loan known as the Loyalty Loan attracted much attention in the early part of the nineteenth century. International affairs were assuming a very serious aspect. Prussia and Germany had withdrawn from the League against France, while Austria was clamouring for assistance. At home the condition of the country was far from prosperous, being marked by stagnation of trade, scarcity of money and of food, and general discontent among the people. An appeal was made to the loyalty of the nation, and it is somewhat remarkable that, in spite of the general shortage of money, a sum of eighteen millions was raised in a few days. It was

arranged that the capital subscribed, if demanded, should be repaid within two years after a definite treaty of peace had been made. The Peace of Amiens came in 1802, so that in 1804 stockholders were entitled to ask for repayment. Money was so scarce that it was arranged that the Loyalty Loan stock should be exchanged for new stock bearing 5 per cent. interest. The latter, however, was issued under par, and the balance was made up by three per cents. This transaction involved the country in a heavy loss, which became all the more serious, as war was, in fact, again proclaimed in May 1803.

In that year, while peace negotiations were going on, there occurred a famous Stock Exchange hoax. An announcement was posted up on the 5th May 1803 outside the Exchange, to the effect that the negotiations between England and the French Republic had been "brought to an amicable conclusion." The effect of the news was so marked that the Funds rose to 70 on the opening of the market, and fell as rapidly when the trick was discovered. Inquiries were set on foot to find out the perpetrators of the hoax, but without success.

The barefaced fraud perpetrated by one Joseph Elkin Daniels, a well-known figure on the Stock Exchange, in 1806 caused a great sensation at the time. It appears that Daniels went to his broker and requested him to buy largely for him in Omnium stock. The broker did so to the extent

of £30,000, which he delivered to Daniels, and for which the latter gave a banker's draft. The draft could not be presented till the afternoon. Daniels lost no time in selling the stock to other brokers, and, having cashed their cheques, decamped. His own draft was dishonoured on presentation. He fled to the Isle of Man, but, after protracted legal proceedings, was delivered up, brought back to this country and placed in the dock. He was, however, acquitted, as it was held that he had not technically been guilty of a criminal offence; but the luckless brokers, whom he had duped, lost their money.

In the same year the right of the City of London to compel stockbrokers to be sworn in before the Court of Aldermen was legally tested. The hero of the occasion was Francis Baily. Baily was a somewhat remarkable man, for he was able to find time, amidst his financial operations on the Stock Exchange, for scientific study, and became a very capable scientist. He was elected President of the Royal Astronomical Society, and Sir John Herschell, the celebrated astronomer, paid him the honour of writing his memoir, in which his scientific attainments are referred to in terms of high praise. Baily, in 1806, wrote a small pamphlet, entitled "The Rights of Stock Jobbers Defended," in the course of which he says: "The right of the City of London to "call upon stockbrokers to be sworn in before the "Court of Aldermen has long been contested and "opposed by that body. It is resisted by them,

"in the first instance, under the impression that they "are merely agents, and ought not to be considered "as brokers more than any other persons, who, "under the name of tailors, merchants, and trades- "men, act by commission in the purchase and sale "of goods." A test case was fought by Baily in the Courts, but it is not surprising to learn that his contention did not prevail. There might have been something in his argument if he had contended that, as brokers were merely agents, they should not be treated differently from other agents who buy and sell on commission; but this could not alter the fact that the law, as it stood, applied only to stock-brokers, and not to any other class.

In 1811 took place another famous trial, which was long remembered. This was the trial of Benjamin Walsh, a member of Parliament, and well known on the Exchange, on a charge of defrauding Sir Thomas Plomer. Sir Thomas, having bought an estate, instructed Walsh to sell a large amount of stock to pay for it. As it was not necessary to hand over the purchase-price to the vendors immediately, Walsh advised the purchase of Exchequer Bills, so as to prevent the money lying idle. Sir Thomas thereupon handed Walsh a cheque for £22,000 for the purpose, with instructions to lodge the bills, when bought, with his bankers. When, however, he went to his bank to inquire if the stock had been handed over, he found that bills to the amount of only £6,000 had been

deposited, and the discovery resulted in Walsh's arrest, trial, and conviction

From the year 1810 the business of the Stock Exchange increased greatly, loans succeeding each other with remarkable rapidity. In 1815 the first loan to the French was negotiated.

On the 21st February 1814 the famous De Berenger fraud took place, which was very similar to the hoax of May 1803, to which we have already referred. De Berenger landed at Dover, and masqueraded as Lieut.-Colonel du Bourgh, who was aide de-camp to Lord Cathcart. On his arrival at Dover he despatched a message to the Port-Admiral of Deal, announcing a great victory and the death of Napoleon. Up went the Funds, and De Berenger was able to sell out nearly a million of Government stock, reaping a profit of some ten thousand pounds. In this case, however, the impostor and his accomplices, some of them well-known public men. were discovered and brought to justice.

Up to 1822 business in foreign stocks had been carried on in the Royal Exchange, but in that year a Foreign Stock Exchange was opened in Capel Court. It was at first quite a separate establishment, having its own Chairman and Deputy-Chairman, and also its own rules and price-list. The subscription was five guineas a year, but outside merchants were admitted. The foreign exchange was subsequently absorbed in the older Stock Exchange.

CHAPTER X.

THE FINANCIAL PANIC OF 1825-6.

THE first serious financial crisis of the nineteenth century occurred at the end of the year 1825. In order to discover the causes which led to this panic it is necessary to look at the financial history of the years which immediately preceded it. These years were marked by an extraordinary outburst of speculative frenzy, which, in some of its features, resembled that which took place before the bursting of the South Sea Bubble, about a century previously. In the words of Mr. D. Morier Evans, the historian of the Commercial Crisis of 1857-8, the panic of 1825-6 was "preceded by a speculative "mania of such a fantastic kind that the very "names of the 'Bubble Companies,' as they were "called, would look like a sarcasm upon specula-"tion in general." In the years 1824 and 1825 no less than 626 joint-stock projects are said to have been formed, which, in order to carry them out, would have required a capital of some 372 millions sterling. Only a small proportion of these enterprises had a useful object in view. A few were to be formed for insurance and investment; others for the construction of railways and canals, but the great majority were floated with the most ridiculous purposes. People, however, snatched eagerly at any chance of making money quickly and

easily, and it is recorded that the entrance to the Stock Exchange became so choked up that nothing but the infliction of a fine of £5 on those who blocked the way had any effect. It may be of interest to glance at a few of the projects which were thrown out as baits to unwary speculators. One company was formed for the purpose of manufacturing gold, and would-be investors were assured that success was undoubted and failure impossible. The shares were eagerly taken up; and an advertisement then appeared in the newspapers to the effect that, as the expense of producing one ounce of gold would cost double the value of the metal, the company would be dissolved, and the deposits kept to pay expenses! The Equitable Loan Company had for its laudable object the doing away with the evils of pawnbroking. It was formed for purely philanthropic purposes, but nevertheless held out to investors the prospect of a sure forty per cent. for their money. The Duke of York lent his name to the enterprise, and Members of Parliament were bribed with shares, which rose rapidly, but as speedily declined, and the concern suddenly collapsed. Companies were floated for the pretended sale of food, such as milk, bread, fish, &c.; the Bolivar Mining Company talked of "mountains, not mines," of metals; a railway was projected from Dover to Calais, and a loan of £225,000 proposed for Patagonia; while, as summarising the ridiculous folly of the times, a "Parliamentary Steam Company" was announced,

with the object of passing Bills more rapidly through the House of Commons!

But these wild-cat joint-stock enterprises were not the only field which offered a tempting harvest to the daring speculator. In 1824 and 1825 a sum amounting to no less than forty millions was subscribed in foreign loans, in which there was quite a boom at the time, while immense sums were also sunk in foreign mines. A large amount of English capital was also diverted to the South American Republics, the independence of which had been recently recognised by the English Government.

It may be asked what was the real cause of the remarkable speculative mania which seized hold of the British public towards the end of the first quarter of the nineteenth century. Apart from the usual fascination which the prospect of easy gain possesses, it is probable that the action of the Government in 1823, in reducing the rate of interest on Consols and other national securities, led indirectly to the boom of which we are speaking, and the subsequent panic. This reduction in the interest on Government stock was naturally followed by a fall of interest in private securities, and people, thus finding their incomes diminished, looked about for more profitable investments, and seized eagerly and recklessly on any enterprise which offered a large return for their capital.

It is perfectly clear that the strain on the country, caused by the constant efflux of capital to which

we have referred, must have been considerable. The Bank of England wisely raised its rate of discount and diminished its issues, in order to put a check upon the efflux of bullion. The private and provincial banks, however, did the reverse, and, thinking that the boom was going to last for ever, had been advancing money readily on scant and unrealisable securities. These banks also raised, instead of contracting, their issues, "without a "corresponding increase in trade or industry of the "country sufficient to have justified the issue of a "single additional pound," and the country was flooded with paper money.

It is obvious that such a state of things, and a condition of entirely artificial prosperity, must before long come to an end. A great many of the foreign loans paid no dividends at all, so that investors in this field found their incomes considerably attenuated. Then the general shortage of money commenced to be felt, and rumours as to the solvency of certain banks got abroad. Matters were brought to a head by the failure of Messrs. Pole & Co., an important London house, with many country branches, and then came the usual result in the "runs" upon the banks, and the inevitable collapse of those which could not withstand the strain. During 1825, no less than seventy-nine banking houses stopped payment. The estimated liabilities of these banks amounted to fourteen millions, while their assets were only eleven millions, thus leaving a deficiency of some

three millions. As showing the state of panic with which the public were seized when the "runs" on the banks commenced, we may refer to one humorous incident. It is recorded that an old lady, feeling faint, sat down to recover herself on the steps of a banking establishment in Lombard Street. A crowd, as usually happens, soon collected round her, and this caused a rumour to spread that there had been a run upon the bank in question!

It is a curious fact that financial panics followed each other in the nineteenth century at regular intervals of ten years. The crisis of 1825-6 was succeeded by the panic of 1835-6, this being followed by the Railway Mania of 1845-6. Then came the most serious event of all—the commercial panic of 1857-8. Each of these crises possessed certain well-marked and distinctive features, though all, no doubt, were caused, in the first instance, by an excess of speculation. The determining factor in the panic of 1825-6 was, as we have seen, the shortage of money caused by the drain of capital in foreign investments, together with the reckless issue of paper money by private and provincial banks, and the huge advances made by them on unrealisable securities.

CHAPTER XI.

THE CRISIS OF 1835-6.

THE FIRST STOCK EXCHANGE "CORNER."

ONE of the first cases of "cornering" on the Stock Exchange is referred to in *The Times* of March 25th 1825, and this process, so well known in financial circles to day, was apparently a novelty early in the nineteenth century. The writer in *The Times* of the date mentioned states: "We under-"stand that in the case of one of the newly-formed "companies a stratagem of a very unusual nature "has been resorted to, to raise artificially the price "of shares. It is well known that a practice exists "at the Stock Exchange of selling at a distant "period, without the parties having any of the stock "or shares at the time . . . The persons "engaged in the new company in question are said "to have taken advantage of this gambling "mania to buy in for time more shares than they "know have actually been issued, and which con-"sequently it will never be in the power of the "sellers to deliver The effect has been to raise "the shares to four or five times the value at which "they were first issued. . . ."

INTRODUCTION OF THE "MONEY ARTICLE."

It has been pointed out by Mr. Duguid that one of the results of the boom of 1825 was the establishment of the daily "Money Article." Up to this

time, although price lists of securities had been published, and short paragraphs relating to various investments from time to time appeared in the newspapers, there had not been any regular financial articles, which to-day form so important a feature of the daily Press.

Abolition of Lotteries.

The year 1826 saw the final abolition of lotteries, which had become one of the most pernicious evils of social life in England. Lotteries are said to have been invented by the Romans, who used them for the entertainment of guests, prizes being distributed by the host to his visitors. Later on they were employed as a means of raising money for Government purposes, this practice, we are told, having originated at Genoa.

The first lottery in England of which we have any record took place in 1569, for the purpose of raising funds for the repair of our harbours, the drawing for the same lasting four months. In 1612 there was another State lottery, for the benefit of the Virginia colonies, in which a tailor won the largest prize of 4,000 crowns. Then lotteries were taken up by private individuals, and the evil spread to such an extent that in March 1620 lotteries were forbidden by an Order in Council.

In 1694, however, State lotteries were renewed by William III, in order to raise money, and from this date became one of the most popular forms of

speculation. "The chance, however remote, of "gaining a large sum by a small risk, with the feel-"ing of anxious and not unpleasing excitement, "rendered lotteries a favourite phase of English "gambling." During the eighteenth century the craze spread like wildfire. Lotteries were organised by tradesmen of all kinds—by tailors, stay-makers, glovers, hat-makers, tea merchants, snuff and tobacco merchants. Barbers announced that for the modest sum of threepence the customer could not only enjoy the luxury of a shave, but also have a chance of receiving £10. Lotteries were the order of the day, and were run by all classes, from newspaper and magazine proprietors down to shoeblacks. One enterprising keeper of a sausage-stall held out to purchasers of his delicacies the prospect of winning a large sum. So great was the boom in lotteries that legitimate trade is said to have been at a standstill. "Shopkeepers, compelled by the "decrease of business, took the hint, and disposed "of their goods in lottery. Ordinary business "among the lower tradesmen was greatly sus-"pended." A great traffic in the purchase and sale of tickets was also carried on, and the "splitting" of tickets was introduced, so that anyone could participate in the gamble by paying a very small sum for a share in the looked-for prize. Someone wrote at the time: "My whole house was infected with "the lottery mania, from the head of it down to my "kitchen-maid and post-boy, who have both "pawned some of their rags that they might put

"themselves in fortune's way." At last the scandal of the losses caused to the poorer classes became so great that in 1805 the Government appointed a Committee of the House to report on the matter; but although they commented in the strongest possible terms upon the evils wrought by the lotteries, they were not actually abolished till 1826.

Financial Crisis of 1835-6.

We have now to consider the well-known financial panic of the years 1835 and 1836. One of the main causes was the raising of immense loans to Spain and Portugal. A movement was on foot to assist Don Pedro in his attempt to expel Dom Miguel from Portugal, and to seize the Crown for himself. England sympathised with Don Pedro, and a loan of £800,000 was raised on the security of a quantity of port wine. This was followed by a further loan to Portugal of two millions. The promises held out were not kept, interest on the shares was not paid, and dividends were capitalised. About the same time a loan of four millions was raised for Spain. The most roseate prospects were held out, and Spanish Cortes stock, which in 1833 was at 16½, went up to 72. But this fool's paradise did not last long. At the beginning of May 1835 the prices of Spanish and Portuguese stock began to drop, and there were no buyers, but only sellers, as the shares turned out to be worth next to nothing. On the 21st May there was a panic on the Stock Exchange. The jobbers closed their books and

refused to transact any business, while we are told that "the black-board was inadequate to indicate the defaulters."

The tale of disaster, however, was not by any means complete, for before the City had had time to recover from the effects of the slump in Peninsular stock another financial panic occurred, owing to the wholesale failures of country banks, similar to those ten years previously. Joint-stock banks had been made legal in 1826. During the decade which followed, some sixty of these banks had been established, but the year 1836 witnessed a remarkable activity in this direction, no less than forty-two being founded within twelve months, thus bringing the total up to 102. The result was the flooding of the country with paper money, which, just as happened in 1825, became the cause of new speculation and hazardous investments. A heavy drain of bullion occurred from April to August 1836, and caused the Bank of England to adopt restrictive measures and decrease its issues. This caused alarm, as people remembered what had happened in 1825. The result was again a run on the provincial banks, and the crisis was precipitated when the Agricultural Joint Stock Bank of Ireland stopped payment, causing a loss of £400,000 to the shareholders. Several banks in the North of England collapsed, and Manchester was particularly hard hit, the Commercial Bank of England and the Northern and Central Bank of England being forced to suspend payment.

Matters were rendered even more serious when three of the largest Liverpool houses, Wildes, Wiggins, and Wilson (known popularly as "the three W's) also stopped payment. The ruin of these firms was caused by the enormous amount of acceptances which they held for advances made to American houses which did business with this country. The Bank of England suddenly ordered their Liverpool agent not to accept the paper money of the three firms mentioned, and this caused their collapse, through want of sufficient ready money.

CHAPTER XII.

THE RAILWAY MANIA.

The House of Rothschild.

No history of the Stock Exchange would be complete without some reference to the famous House of Rothschild, which has acquired a world-wide reputation in *la haute finance*, and has largely controlled the money markets in this country and abroad for more than a century. The founder of the great firm was Meyer Anselm Rothschild (who died in 1812), but it was his son Nathan Meyer Rothschild (1777-1836) who is best known in the financial history of this country. Nathan Meyer Rothschild started in business in Manchester, but, finding that commerce in a provincial town did not afford sufficient scope for his genius and energy, came to London in 1800. He soon became a leading figure on the Stock Exchange, and may be said to have been the means of popularising foreign loans, by arranging for the payment of dividends in London, instead of at the place of issue, and also in the currency of this country instead of in foreign coin. He is said to have stood aloof from the speculations of 1824-5, although, at the time of the subsequent panic early in 1826, he largely helped in stemming the tide of disaster by taking stock off the hands of those who had bought heavily. His services in this direction were incalculable,

for there is little doubt that, if all this stock had been thrown upon the market, it would have added largely to the tale of woe, and increased the general panic. In various crises he was consulted by the Government as to what steps should be taken, and his advice was invariably followed, and its wisdom proved by its subsequent success.* He founded the Alliance Assurance Company in 1824, and died in 1836, the year of the serious financial panic, which was described in the last chapter.

The Railway Mania and Commercial Crisis (1845-7).

As everyone knows, the first passenger railway between Stockton and Darlington, of which George Stephenson was engineer, was opened in 1825, and this was followed by the inauguration of the Liverpool and Manchester Railway in 1830. It was not for some years that people commenced to see the possibilities of the new system of locomotion, but in 1844 a speculation in railways began, fostered by the revival of commerce and the abundance of money about this time. In the month of January of the following year, sixteen new railway companies were registered. The speculation in railroads caused an enormous increase in the value of iron, and the price of that commodity rose from 60s. to 68s. in January to 70s. to 80s. in December 1845.

* "Chronicles and Characters of the Stock Exchange" (Francis), p. 295.

The history of the speculative manias of 1825 and 1835 was largely repeated in 1845, and the joint-stock frenzy of 1835 was, ten years later, applied to railways. Everybody saw easy fortunes within their reach, if only they could get hold of the precious railway scrip. The public went mad. Brokers could hardly get through their business, and we are told that the Stock Exchange "Accounts," which formerly occupied one or two days, now took nearly a week to complete. Up to September 1845 no less than 1,035 railway schemes had been registered. It can easily be imagined that the outburst of speculative madness gave golden opportunities to unscrupulous "financiers," who reaped a rich harvest. So great was the demand for railway stock, so eagerly were chances sought after of "getting in" for the "good things" which were thrown on the market, that an enormous business was done by the "little-go" or "Alley-men," as they were called, in letters of allotment. Men of straw filled up application forms for shares, without the least intention, or without the slightest hope, of ever taking them up, knowing that as soon as they became possessed of the letters of allotment they could easily find scores of crazy investors who would snatch at the opportunity of taking them over, paying the holders a large premium for the favour. It is surprising to think of the huge sums which are said to have been made by these "Alley-men," men of no standing whatever and without the smallest capital. It was in vain that writers of the day

inveighed against them. In a contemporary work entitled "The City, or the Physiology of London Business," they are spoken of as "a description of "people including the lowest of the low among the "outside speculators trafficking in the letters and "shares of railway or any other joint-stock com- "pany that may happen to fall into their hands." So long, however, as the public were willing to do business with them, they went merrily on their way, undeterred by scathing comments by writers of the day; and when, after a time, the names of these gentry became known, and letters of allotment were refused them, they simply adopted false names and addresses, and in this way secured allotment.

The capital required for the various railway schemes launched during 1845 was stupendous, and it is said that the English, Irish, Scotch, and Welsh lines alone would have required some 600 millions to carry them out. Every day fresh enterprises appeared. Before the Railway Mania there were only three railway newspapers in existence. In 1845, however, there were no less than twenty publications devoted to railway interests, and the daily press was simply deluged with advertisements.

One or two of the newspapers of the day (such as *The Times* and *The Economist*) gave timely warnings of the dangers that were impending. *The Bankers' Magazine* said: "There is too much "reason to fear that during the last three months, "but especially during the last five or six weeks, the

"real object of the concocters of railway schemes "has not been to devise desirable and good lines of "railway, or to start a scheme with which they "really intended to go to Parliament, but, in plain "language, to rob and delude the public by getting "their scrip into the market at a premium, and "to rob and swindle their subscribers—in par- "ticular by squandering and embezzling the deposit- "money."

These and similar warnings fell on deaf ears, and the contagion continued to spread. In October 1845, however, the inevitable reaction came, and the panic began. The Board of Trade had ordered plans and accounts to be furnished by the promoters of railway undertakings before the end of November in that year. This, of course, caused alarm in the minds of those who were floating purely visionary schemes, and a further blow at the bubble companies was struck when it was ordered that large deposits had to be paid by the promoters to the Accountant-General in Chancery by February 1846. These measures caused the collapse of many undertakings which could not find the requisite deposits, and there was a general decline in all securities, but especially in railway stock. Brighton Railway Stock fell from 78½ in August to 64 in October 1845; Midland fell from 175 to 155½; while stock of the Trent Valley Railway (the first sod of which had been cut by a Prime Minister) dropped suddenly from 20 to 16¼. Of course, when the crash came everybody was only anxious to "get

out " as quickly as possible, and there was a great crop of litigation as to the liability of allottees of railway shares. The case of *Woolmer v. Toby* decided that those who held letters of allotment were, in any circumstances, liable; but in the later case of *Walstab v. Spottiswoode* it was held that subscribers could demand the restitution of their deposits, if the undertaking was not proceeded with. In 1846 Lord Dalhousie's Act was passed for the dissolution of the phantom companies.

As usual in the history of financial panics in this country, misfortunes did not come singly, for the railway crisis of 1846 was succeeded in the following year by a serious food and money panic. This was mainly caused, of course, by the drain of capital to railway enterprises, and the subsequent loss of much of that capital. In addition, there were deficient harvests in 1847, especially in the potato crops, and a shortage in the supply of cotton. Trade, especially with the East, had also been artificially inflated and expanded, and the country was unable to stand the strain.

CHAPTER XIII.

THE COMMERCIAL CRISIS OF 1857.

Two Interesting Cases.

In 1851 was decided the case of *Grizewood v. Blane* (11 C.B. 538), in which it was held that contracts for the payment of differences, without any intention of delivery of the stock, are void, being wagering contracts within the gaming Act of 1845 (8 & 9 Vict. c. 109, s. 18). It will be remembered that Sir John Barnard's Act of 1734 had declared void all time-bargains, *i.e.*, contracts for payment of differences only, but the Act soon became a dead letter, because the Judges held that it only applied to dealings in the English funds. Advantage was now taken, however, of the Act of 1845, as covering all gambling in differences. We may add that Barnard's Act was not actually repealed till 1858.

In 1854 a great deal of the effect of the case of *Grizewood v. Blane* was whittled away by the decision in *Jessopp v. Lutwyche* (24 L.J. Ex. 65), where it was held that, in spite of the Act of 1845, a broker can sue his principal for money paid on behalf of the latter by way of wager on the market price of shares. This decision, however, would not now be upheld, since the passing of the Gaming Act of 1892 (55 Vict. c. 9).

Rebuilding of Stock Exchange.

It may be of interest to record that the Stock Exchange was rebuilt in 1853. This had become necessary owing to the immense increase of business, and the consequent inadequacy of the existing accommodation. The rebuilding operations were started in June 1853, and the new *locale* of the stockbrokers was opened in March of the following year. During the intervening period business was carried on at the Hall of Commerce in Threadneedle Street, which had been temporarily leased by the Stock Exchange authorities.

The Commercial Crisis of 1857.

The American financial crisis, which took place in September 1857, heralded, and no doubt indirectly hastened, the commercial panic in England later in that year. The feature of the crisis in America was the wholesale failure of important banks, similar to what had occurred in this country just twenty years previously. The suspension of the Ohio Life and Trust Company, with a paid-up capital of £400,000 sterling, and deposits to the amount of £1,200,000, gave the first signal for general alarm and anxiety. This was followed by other failures, accompanied by a natural fall in the prices of securities generally, and a corresponding rise in the price of money. Between the 25th and 29th September 1857 no less than 150 banks in Pennsylvania, Maryland, Virginia, and Rhode Island suspended payment.

A run on the New York banks followed, and eighteen banks collapsed, while the remaining establishments were forced to place themselves under the protection of the law. In all, 5,123 failures are said to have taken place in the United States and Canada, and the total liability was estimated at 291 million dollars. The causes of this *débâcle* were made apparent in the investigations which followed, when "revelations of a gigantic swindle in America were made." It was found that accounts had been generally falsified, while there had also been a wholesale depreciation of stock, for which no allowance had been made, with the result that American credit was, for the time being, shaken to its very foundations.

At first the American panic did not seem to exercise any appreciable effect in England, except to those who had been actually hit; but in the following month the result was felt in our financial markets. Several failures occurred during October, especially among Glasgow firms, whose debts to the Western Bank of Scotland amounted to no less than two millions. The Bank rate rose from 5½ to 8 per cent. On the 27th October the Liverpool Borough Bank failed. In November several disastrous failures took place, and the Bank rate again went up to 9 per cent. On the 4th November the well-known Sheffield house of Naylor, Vickers & Co., with property to the amount of £590,000, collapsed, and a few days after Dennistoun Cross & Co., a great American firm, with branches in several parts of the

world, also failed, although it should be mentioned that both these firms managed, with difficulty, to right themselves, and subsequently paid in full. Perhaps the most serious failure of all was that, on the 9th November, of the Western Bank of Scotland itself, with its 98 branches, a paid-up capital of £1,500,000, and five millions of deposits. On the 11th November the rate of discount rose to 10 per cent., and on the following day the Bank Act of 1844 was suspended by order of the Government. By the Act of 1844 the issue of notes by the Bank of England was limited to an issue of £14,000,000 upon securities*; and therefore the Bank was unable to exceed that amount, unless by special authority of Parliament. Only the very gravest circumstances would, of course, warrant the suspension of the Bank Act, and this will be understood when it is mentioned that the commercial panic of 1857 has been the single occasion when such a suspension actually took place. During the panic of 1847, and again in 1866, after the Overend Gurney crash, authority for the suspension of the Bank Act was given, but the effect was so soon apparent that it was not necessary for the Bank of England actually to avail itself of the special authority conferred on it. In 1857, however, so serious was the state of the money market, that the Bank was compelled to take advantage of the suspension of the Act to the extent of two millions,

* Any further issue must be against an equal amount of gold or silver bullion.

to which amount it exceeded the limit of fourteen millions at which the issue of notes upon securities had been fixed by the statute.

The suspension of the Bank Act, though it may, to some extent, have helped matters, did not, however, stem the tide of disaster. On the 17th November the Wolverhampton and Staffordshire Bank failed, and this caused the spread of the panic to the iron districts. Seven other failures took place in that part of the country, and many works had to be closed down, in consequence of which some 30,000 artisans were thrown out of employment. This, of course, added to the widespread misery among the working classes, which was already bad enough owing to the collapse of so many industrial banks.

A Select Committee on the Bank Acts was appointed at the end of 1857 to inquire into the causes of the recent panic. In the Report of the Committee three reasons are assigned for the disaster :—

(1) The unprecedented extension of foreign trade.

(2) The excessive importation of precious metals.

(3) The undue development of banking, and the augmented facility of obtaining credit.

With regard to (1), some idea of the expansion of commerce may be gathered from the fact that,

before 1848, our total exports never exceeded 60 millions, while in 1857 they reached the figure of 122 millions. In reference to the second cause of the panic, the few years preceding 1857 had been a period of great excitement owing to the gold discoveries in California and Australia, and it has been calculated that something like 80 millions of bullion were added to the European stock. The influx of money into the country undoubtedly resulted in the extension of a system of fictitious credit, which was assigned as the third cause of the crisis of 1857. The joint-stock banks, which received a temporary set-back after the panic of 1836, afterwards took on a new lease of life, and the deposits in the joint-stock banks in London alone, which in 1847 amounted to nine millions, had risen in ten years to 43 millions. Money was so plentiful that the banks made loans on very unsubstantial security, and were also very ready to discount bills of any description, and to any amount. One broker is said, in fact, to have had bills discounted by the banks to the extent of nearly ten millions! "Of these vast resources "the mercantile community took every advantage. "On one side was an apparently boundless amount "of capital waiting to be borrowed; on the other "side a throng of greedy speculators anxious to "work the credit system to the utmost possible "extent of which it was susceptible. In the lenders "there was utter recklessness in making advances; "in the borrowers unparalleled avidity in profiting "by the occasion; and thus an unwieldy edifice of

"borrowed capital was erected, ready to topple "down on the first shock."

It is easy to see how an artificial and undue expansion of trade would result from the extension of a fictitious credit system; for men are thus enabled to engage in big commercial enterprises without having any real capital at their back. A mere increase in export returns does not by any means prove a corresponding increase of commercial prosperity; on the contrary, it may be simply a sign of the desire to give credit on slight security, and encourage hazardous business speculation, and may, as was the case in 1857, simply herald the coming storm.

CHAPTER XIV.

THE OVEREND, GURNEY CRASH.

Dealings before Allotment.

In 1864 the Stock Exchange Committee had under its serious consideration the question of the validity of dealings in shares of a new company before allotment had actually taken place. The matter arose mainly owing to what had, just before, taken place in regard to the Australian and Eastern Navigation Co., Lim. The prospectus of this company stated that certain shares would be available for the public; but, in spite of this, it was proved that a large number of shares were kept back, with the object of a "corner" being made in them by the directors and their friends. The result was that shares rose to a premium of £8 a share. The Committee of the Stock Exchange took up the matter, and released the sellers of the shares in question from their obligation to deliver, and the company was extinguished. The Committee, however, went further, and stated that it would not recognise any dealings in shares which took place before allotment had been made. It was soon found that the rule did not work well, and opened the door to fraud, which it was intended to suppress; for it enabled unscrupulous brokers to repudiate bargains made before allotment, when it suited their convenience, on the ground that such bargains were not

recognised by the Stock Exchange Committee. In the following year (1865) it was accordingly found desirable to repeal the rule in question.

The Overend, Gurney Crash.

In 1866 there occurred what is always regarded as the greatest financial panic of modern times. It will be remembered that the Companies Act of 1862 gave, for the first time, the power of forming companies with limited liability. Advantage was eagerly taken of the Act, and by March 1864 no less than 263 companies had been floated, including 27 banks and 15 discount houses. The main feature of the new banking companies was their dealing in long-dated acceptances, the strain of which was bound, sooner or later, to make itself felt. Another cause which led to the panic of 1866 was the shortage of cotton, brought about by the Civil War in America (1863), from which country the supply of cotton had mainly come. Owing to the scarcity of that commodity not only did the price go up, but consignments had to be paid for in ready cash, and this naturally caused a drain on the money market. The influence of the new and unsound companies, coupled with the partial dislocation of commerce owing to the deficiency of the cotton supply, was already perceptible in 1865, and in October of that year the Bank Rate was advanced three times in nine days from 4 per cent. to 7 per cent. In January of the following year (1866) it was raised to 8 per cent., and then the daily

winding-up of joint-stock banks caused a feeling of suspicion and unrest in the financial world. In April the Joint Stock Discount Co. failed, and this was followed by the collapse of Barned's Bank in Liverpool to the tune of £3,500,000 liabilities. The climax was reached on Thursday, the 10th May, on which evening the great house of Overend, Gurney & Co. suspended payment. The original firm had been established some sixty years previously by Mr. Thomas Richardson and Mr. John Overend. Some time after its foundation Mr. Samuel Gurney—whose father was a member of the firm of Gurney & Co., bankers, of Norwich—became a partner in the business, which was subsequently turned into a limited liability company, with a capital of five millions, of which, in 1866, £1,500,000 had been paid up. For some time prior to the 10th May it had been known in financial circles that the affairs of Overend, Gurney & Co. were in a somewhat unstable condition, but no one seemed to have any idea that matters were as serious as they really were, and the news of the company's collapse on the 10th May fell on the City like a thunderbolt. On the following day, which is known in financial history as "Black Friday," the company put up its shutters, its liabilities being estimated at something like ten millions. Nothing comparable to this disaster had ever before been experienced. It was not merely the failure of Overend, Gurney; infinitely more serious was the effect produced by the collapse of what had been

for so long regarded as an absolutely safe and substantial concern. Of course, public confidence in all banking establishments was shaken, and the usual run on the banks was feared. The misgivings of depositors were not lessened when several other failures followed almost immediately, notably that of the English Joint Stock Bank. *The Times* wrote: "The doors of the most respectable banking "houses were besieged, more, perhaps, by a mob "actuated by the strange sympathy which makes "and keeps a mob together than by the creditors "of the banks; and throngs heaving and tumbling "about Lombard Street made that narrow thorough-"fare impassable. The excitement on all sides "was such as has not been witnessed since the great "crisis of 1825. . . ." According to the *Banker's Magazine*: "A greater crash has never "taken place in any one week in any country in the "world. Looking at the list of suspensions, it will "be seen that their business ramifications are more "than European. More or less, they embrace all "the four quarters of the world, and we have yet "to feel the reaction from the effect which the news "will produce as it extends from point to point."

From all accounts some extraordinary scenes must, indeed, have been witnessed in the City on that fatal Friday. It is recorded that on the morning of that day a number of banking houses in Lombard Street, in order to proclaim their solvency and inspire confidence, took down their shutters an hour before the usual time; and when the eventful

day was over many kept open long beyond the accustomed hour, to show the public that they had successfully weathered the storm! One lady, who had a large sum deposited at the London and Westminster Bank, on hearing of the Overend, Gurney smash, at once rushed off and withdrew the whole amount. Not knowing what to do with the money, she went to one of the Governors of the Bank of England, and asked him where she should deposit her wealth. "Where have you taken it from?" he asked the lady. "From the London and Westminster Bank," she replied. "Then take it back again at once," was his advice.

We have already mentioned that authority for the suspension of the *Bank Act* was given on the 11th May 1866. Although advantage was not taken of this power, the figures of the Bank of England on that and the few following days show how perilously close to the wind it had sailed, and how near it was to being forced to raise its issues. The advances made by the Bank on the 11th May were enormous, and this will be understood when it is mentioned that its reserve, which in the morning, at the opening of business, stood at £5,750,000, had, at the close of the day, fallen below three millions—*that is, it had been reduced by nearly one-half*. We may remark that Mr. Burn, in his excellent work on "Stock Exchange Investments," expresses the view that the panics of the first seventy years of the nineteenth century were, to a large extent brought about owing to the reserve at the Bank of England not being sufficiently strong.*

* For a [illegible] discussion of the Bank of England's Reserve the reader is referred to Bagehot's "Lombard Street."

CHAPTER XV.

SELECT COMMITTEE ON FOREIGN LOANS, 1875.

SELECT COMMITTEE ON FOREIGN LOANS, 1875.

IN February 1875 a Select Committee of the House of Commons was appointed "to inquire into the "circumstances attending the making of contracts "for loans with certain foreign States, and also "the causes which have led to the non payment of "the principal moneys and interest due in respect "of such loans." In the following July the Committee presented its report,* which is a very valuable document, and will well repay study by those interested in the financial history of the nineteenth century. We have seen that the crisis of 1825 was, to a large extent, brought about by the loans raised about that time for the South American republics, most of which turned out disastrously for those who invested in them, and the report deals mainly with the loans contracted with the Spanish American Governments.

The Select Committee, in its report, first calls attention to the Honduras Loans, the earliest of which was issued in London and Paris in 1867. In that year, prior to the issue of the loan, Honduras was already indebted in a sum of over £120,000. Yet a loan of one million sterling was launched,

* Parliamentary Papers, 1875, XI, I.

although, as was admitted, "the Republic of "Honduras had not that state of material develop-"ment, density of population, favourable condition "of finances, organised resources, or industry and "commerce, to be in the most appropriate position "for the issue of a loan of a million sterling, with "probabilities of success in the English market. ". . . Besides, what guarantees, what pledges, "what securities satisfactory to the public could "they offer who were commissioned to launch that "loan on the market in the name of the Govern-"ment of Honduras?" The loan was issued in London and Paris by Messrs. Bischoffsheim & Goldschmidt on behalf of the Honduras Government, the latter undertaking to pay annually £140,000 for fifteen years, this yearly payment being secured by a charge on the railway revenues and all the domains and forests of the State. The prospectus stated that the loan was raised for the purpose of constructing a railway from the Atlantic to the Pacific. The loan appears to have missed fire, for according to the statement of the Minister of Honduras in this country (Don Carlos Gutierrez), "the first Honduras Loan, in spite of all the "advantages which it offered to the subscribers, "and the high respectability of the house which "managed the operation, was received by the "public with perfect indifference, with profound "contempt." Only a very small number of the shares appears to have been subscribed for by the public.

Yet, in May 1869, "at a time when only a small "portion of the loan of 1867 had been realised in "England, which had not produced much more "than £100,000 in cash," the Minister of Honduras in Paris took steps for the issue of a further loan of nearly two and a-half millions. This, however, was hardly more successful than the previous one.

In 1870 the Honduras Government was apparently in dire financial straits, and bethought itself of the expedient of attempting to raise a third loan. It was, however, felt that this new venture was, in the circumstances, hardly likely to prove more attractive than the two earlier ones, and the following plan was therefore adopted to restore the confidence of the public before the prospectus of the new loan was issued. As already mentioned, the payments in respect of the 1867 loan were secured by charges on the forests. Nine days before the prospectus of the 1870 loan was issued, several consignments of mahogany were sent over to this country and sold, the proceeds being paid to the trustees of the loan. This had the effect of inducing the public to believe that the hypothecated forests were providing means for paying the interest upon the loan. As a matter of fact, however, the cargoes of mahogany were specially purchased by the Honduras Government, and actually paid for out of the funds subscribed towards the loan! This third loan was fairly successful, as the market was skilfully rigged, whereby the shares went up to a premium, and the loan was

more than fully applied for. Investors, however, were sadly disappointed at the results.

A table printed in the report of the Select Committee shows that the liability of Honduras in regard to principal and interest on the three loans of 1867, 1869, and 1870 amounted to no less than six and a-half millions sterling. The Committee referred in very strong terms to the conduct of the Honduras Minister, Don Carlos Gutierrez:—" He " has sanctioned many acts which your Committee " are compelled to disapprove. It is admitted that " the Republic of Honduras, with but slight " financial resources, contracted through his agency, " or with his cognisance, loans to an extent far " beyond any possibility of repayment. On behalf " of his Government he entered into most censurable " contracts. He sanctioned Stock Exchange deal- " ings and speculations in the loans which no " Minister should have sanctioned. He was a party " to the purchase of the mahogany cargoes, and " permitted the public to be misled by the announce- " ments in relation to them. . . ."

The report then goes on to deal with the loan to Santo Domingo (1869), which was subsequently repudiated by the Senate of that Republic. The Costa Rica Loans of 1871 and 1872 are then discussed. In regard to the first, no payment in respect of principal or interest was made after 1872. With reference to the second, it is stated in the report:— " The last payment of interest was made on the

"1st of October 1873, but no remittance appears "ever to have been made from Costa Rica, and "except the sums retained in England out of the "proceeds, the bondholders have never received "anything whatever in respect of the principal or "interest of the debt This default seems to be "mainly attributable to the bad faith of the borrow- "ing Government, which has made no attempt to "meet its engagements" The Paraguay Loans of 1871 and 1872 turned out almost as badly for the bondholders.

The report concludes with some general observations upon foreign loans Stress is laid upon the fact that in most of the cases referred to in the course of the report the States issuing the loans were not financially equal to the repayment of interest, much less of the principal sums. Reference is also made to the evils of dealings in the stock before allotment, by the contractors for the loan, the effect of which is to create a fictitious market. This matter, as mentioned in the last chapter, had engaged the attention of the Stock Exchange Committee some ten years previously. The report then goes on to criticise the methods adopted by the Committee of the Stock Exchange for granting quotations, and suggests that more thorough investigation should be made before such quotation is given, seeing that the grant of a quotation lends a "certain prestige" to the loan. Moreover, it is pointed out that, according to the existing practice, the Stock Exchange Committee quoted the whole amount of a

loan, although in fact only part of it may have been allotted to the public, and a very small percentage of the actual amount subscribed for. The report then recommended that returns should be from time to time published in the Official List of the actual amount held by the public on which interest is being paid, and not merely the nominal amount of the loan. Finally, particulars are given of the information which, in the opinion of the Committee, it should be made compulsory to mention in the prospectus of a foreign loan.

CHAPTER XVI.

THE STOCK EXCHANGE COMMISSION, 1877.

SELECT COMMITTEE ON THE WORKING OF THE COMPANIES ACTS (1877).

IN 1877 a Select Committee was appointed "to "inquire into and report on the operations of the "Companies Acts of 1862 and 1867," and their report* was issued the same year. The report points out that: "The evil which the Joint Stock "Companies Acts were intended to remedy was that "a company could not, as a matter of right—that "is, without a charter—engage in business without "risking the whole fortune of each of its members. "In that respect the Acts have succeeded. No "safeguard, however, against loss in any business "can be effectual unless a man, before he parts "with his money or pledges his credit, carefully "inquires into the nature of the undertaking, and "the character and credit, pecuniarily and morally, "of those with whom he is to be associated.

"Your Committee are much impressed with the "importance of securing, as far as possible, in the "formation of a company, a full disclosure of every- "thing likely to influence any one proposing to "become a shareholder; and they find that the "frauds and losses which have been occasioned by

* Parliamentary Papers, 1877, viii, 419.

"companies (limited) render further regulation in "the formation of companies under these Acts "expedient."

The report then goes on to call attention to the 38th Section of the Companies Act of 1867, pointing out that "the beneficial purpose of this clause "was to secure redress for those who might suffer "through deception or culpable neglect on the part "of promoters and directors of companies, and "any ambiguity in the expression of its purpose "should be remedied or corrected."

Recommendations then follow as to registration, and as to the enforcement of the making of the returns required by the Acts.

London Stock Exchange Commission (1877).

In the same year (1877) a Commission was appointed "to inquire into the Origin, Objects, "Present Constitution, Customs, and Usages of the "London Stock Exchange, and the Mode of Trans- "acting Business in and in connection with that "Institution, and whether such existing Rules, "Customs, and Mode of Conducting Business are "in accordance with Law, and with the Require- "ments of Public Policy." The Commissioners issued their report* in July of the following year. They state in that document that: "We find that "what is known as the London Stock Exchange is a "voluntary association of those who deal in the

* Parliamentary Papers, 1878, xix, 263.

"various securities which pass by the common name "of 'stocks and shares' . . The main objects "with which this large body of persons have "associated themselves together appear to have "been the easy and expeditious transaction of busi- "ness, and the enforcement among themselves of "fair dealing. . . . We desire here to give "our opinion that in the main the existence of such "an association, and the coercive action of the rules "which it enforces upon the transaction of busi- "ness, and upon the conduct of its members, has "been salutary to the interests of the public, while "in the administration of its laws the Com- "mittee for General Purposes has, so far as we "have been able to discover from the evidence, "acted uprightly, honestly, and with a desire to "do justice."

After giving a *resume* of the Constitution and Course of Business of the Stock Exchange, the report goes on to deal with the vexed question of the flotation of new companies and foreign loans, in regard to which "the action of the Stock "Exchange has deservedly attracted more atten- "tion, and been the subject of more unfavourable "remark, than in any other particular." The Commissioners admit that within the previous twenty or thirty years enormous sums of money had been lost in the allocation of new but unsound invest- ments. They state that the main causes of this result are to be found in the craving for high rates of interest on the part of investors, coupled with

the dishonest contrivances of promoters to take advantage of this craving; but they add that the means by which investors have been induced to become the victims of these contrivances are alleged to be intimately connected with operations conducted on the Stock Exchange. The report then discusses in detail "some well-known and notorious instances of unsuccessful companies of late years," viz., the Australian and Eastern Steam Navigation Co., the Marseilles Land Co., the City of Moscow Gas Co., the Eupion Gas Co., Charles Lafitte & Co., and the Peruvian Railways Co With regard to the two last, the report states that "the machinery of the "Stock Exchange was made use of to float com-"panies which never seem to have had any real "existence, but to have been simply created for "the purposes of speculation."

The report then sets out in detail the rules of the Stock Exchange in regard to the shares of new companies, or the scrip of new loans, and their quotation in the official lists. Comment is also made on the question of dealings before allotment. With regard to the practice of granting settlements and quotations, it is suggested in the report that if any further inquiries into the circumstances of a new loan or company are necessary, they should be undertaken by some public functionary and enforced by law.

In regard to the Official List, the Commissioners recommend the appointment of a List Committee,

whose duty it should be to authenticate closing quotations, and to be in a general sense officially responsible for their accuracy.

Perhaps the most interesting part of the report is the concluding section, in which a suggestion is made for the incorporation of the Stock Exchange. The Commissioners point out that some change is necessary in the status of the institution itself. "It "is to be borne in mind that so long as the Stock "Exchange remains as at present, a merely volun-"tary association, subject to no external control "whatever, little permanent advantage can result "from any attempt to effect improvement in the "rules and regulations of the governing body, or "the mode in which transactions on behalf of the "public are carried on. The members of the "Association are a constantly varying body, and "the Committee hold office only for one year. "Assuming, therefore, that changes such as we have "suggested are adopted by the Committee, it is "obvious that there can be no security for the con-"tinuance of these improvements. The members "of the Committee who may have established "them may, at the expiration of the current year, "cease to be in office, and their successors elected "by a bare majority of the members of the Stock "Exchange voting at any election may entertain and "give effect to wholly different views." The report therefore suggests that a corporate body should be created, either by Royal Charter or by Act of Parliament, such body to be under the

management of a Council or Committee, which might be elected by the already existing methods, and with similar powers. The advantages of incorporation are dwelt on, viz., the diminution of the personal responsibility of the governing body, and the right to license persons to act as stock-brokers, which could be conferred upon the corporate body.

CHAPTER XVII.

THE CRISIS OF 1890 AND RECENT HISTORY.

Freedom of the Brokers.

It was not until 1886 that the brokers were finally freed from the City's yoke. We have seen that from time immemorial the municipal authorities had possessed the right of admitting brokers within the City of London, and that in 1707 (by 6 Anne, c. 16) the Court of Aldermen was empowered to exact a yearly fee of forty shillings from each broker admitted. This statute of Anne remained in force till the reign of George III, when, by 57 Geo. III, c. lx, it was enacted that brokers should pay an additional sum of three pounds a year to the City, over and above the forty shillings. This Act was passed in order to give the authorities "an equivalent for the diminution of the profits of "the office of gauger of the City of London," just as 6 Anne, c. 16 was intended as a *quid pro quo* to compensate them for the abolition of the office of "garbler of spices." The unfortunate brokers seem to have been considered "fair game," whenever any new method of taxation was required.

By the London Brokers' Relief Act of 1870 (33 & 34 Vict. c. 60) the jurisdiction of the Court of Aldermen over the brokers was to a large extent abolished, Section 2 of the statute providing that:

"After the passing of this Act the Court shall not "require a broker, by himself or sureties, to give "any bond on his admission as a broker, and the "jurisdiction, supervision, and control of the said "Court over brokers in the said City of London "and the liberties thereof shall cease, and the said "Court shall not have power to make or enforce any "rules, orders, regulations, restrictions, limitations, "or penalties affecting the admission of such "brokers, or the manner in which the business of "such brokers shall be carried on." The Court of Aldermen, however, still retained the right of admitting brokers, and also to demand the fees hitherto paid on admission, although deprived of the power of making rules for their government.

The position after the Act of 1870 was somewhat anomalous, because on the construction of the statute the aldermen had no power to refuse admission to anyone who applied, and in this way many persons obtained a fictitious standing and credit from what had become a mere formality.

In 1884, by 47 Vict., c. 3, which came into operation in 1886, the entire jurisdiction of the Court of Aldermen over the brokers, both as regards admission and fees, was swept away, and the only control at the present day is that exercised by the Committee of the Stock Exchange.

The Crisis of 1890.

Another financial crisis, which was only prevented from developing into a serious panic by the energetic

measures taken by the Bank of England, occurred in 1890. The two previous years had witnessed a large amount of speculative activity. In the first place, the conversion of Consols which was effected in 1888 caused a large amount of capital to be set free, and this led to a great deal of reinvestment, accompanied by the usual desire on the part of investors for high rates of interest. Some sixty-five millions were sunk in loans to the Argentine Republic, the resources of which were, just at this time, being widely exploited, and which was said to offer magnificent opportunities to the speculator. In the early part of 1890 our financial markets were disturbed by strikes in the Scottish iron trade, and by labour disputes in the shipping world. The recent drain of capital was shown by the fact that an Argentine loan of five millions which was brought out in the summer of 1890 completely failed. Then followed a revolution and a run on the South American banks, accompanied by a heavy fall in all South American securities. Towards the end of the year matters became serious. In November the Bank rate was suddenly raised to 6 per cent., and the Bank of England, scenting danger and profiting by past experience, decided to strengthen its reserve, obtaining about three millions of gold from France and a further one and a-half millions from Russia. This step, although undoubtedly a wise and necessary precaution, appears to have increased the general alarm, and matters were brought to a head when rumours got about that Messrs. Baring

Brothers, a great and well-known house, were in serious financial straits, and unable to meet their bills. They were forced to apply to the Bank of England for assistance, and on November 14th a meeting was held to consider the affairs of Messrs. Baring. A guarantee fund was formed, and on the following day it was announced that a scheme had been carried through, by which the guarantors would make good any loss incurred by the Bank of England in making advances to meet Messrs. Baring's liabilities. In this way the crisis passed off, and a panic, which at the time would have proved disastrous, was narrowly averted.

Recent History of the Stock Exchange.

We have now arrived at a point when the events that have taken place on the Stock Exchange are fresh in public memory, and it is therefore unnecessary to recount them in detail. The "Kaffir boom" which preceded the Boer war, and the vast fortunes made and lost at the time, will not easily be forgotten. The Stock Exchange was, for a period, dominated by Cecil Rhodes, the "Napoleon of Cape Town and Kimberley," as he has been picturesquely designated, and the gigantic enterprises which he and his fellow magnates engineered. The effect of the Boer war itself upon the Stock Exchange, and upon our financial markets generally, was well-nigh immeasurable, and, according to the views of some, is still felt to this day. Indeed Mr. F. W. Hirst, the learned editor of *The Economist*, tells us that "the war proved more disastrous to

"the London Stock Exchange and the interests of "the City than any event which had taken place "since the failure of Overend Gurney." A vast amount of capital had been sunk in South Africa in the remarkable speculative outburst which preceded the war, but, owing to the disorganisation of the country due to protracted military operations, a great deal of it was lost. "The mining industry "had been temporarily ruined, the cost of living "had risen, the native labour had dispersed, a "strange mixture of luxury, waste, misery, disease, "plunder, and demoralisation had dislocated the "social organism and the mechanism of business. "Many of the promoters and speculators who had "been most eager for the war were ruined. All the "mining houses connected with the Rand suffered "severely, nor did they recoup their losses by the "costly experiment of importing Chinese coolies." ("The Stock Exchange": F. W. Hirst, p. 68.)

We may make a passing reference to the American crisis of 1907, which was to some extent felt in this country, although its effects here were not by any means as serious as they were to the American financial markets. The crisis was mainly brought about by the failure of the great Knickerbocker Trust in October 1907. Although it had been known for some time previous that the position of the Trust was unsafe, its collapse was wholly unexpected. The failure of the Trust was seriously felt by the New York banks, which were forced to

suspend cash payments, except in the case of cheques.

The recent " rubber boom " on the London Stock Exchange is an interesting episode, of which the ultimate effect cannot yet be estimated.

Having completed the history of the London Stock Exchange, we now propose to give a short account of the history and methods of the American and more important Continental Stock Exchanges.

CHAPTER XVIII.

CONTINENTAL STOCK EXCHANGES.

The Paris Bourse.

The Paris Bourse, as a legally recognised institution, dates back to the early eighteenth century. There were, of course, prior to that time, places where business was done in exchange and sale; but, at first, no distinction was made between securities and ordinary articles of commerce, either as regards the place of dealing or the merchants who did business in them. To-day, however, the French bourses are divided into commercial exchanges proper (*bourses de commerce*), where ordinary articles of merchandise (corn, spirits, sugar, &c.) are dealt in, and stock exchanges (*bourses des valeurs*); while merchants who do business on the *bourses de commerce* are known as *courtiers en merchandises*, being thus distinguished from stock-exchange brokers, who go by the title of *Agents de Change*. It is said that the term "bourse" (which is obviously closely allied to the English word "purse") was first applied to the Exchange at Bruges, either because the merchants there were wont to meet at the house of a man named Van der Bourse, or because the house where they held their meetings had a sign of three purses carved on its gable.

There appear to have been regular meetings of merchants in Paris from a very early period, and by an Ordinance of Louis VII, dated 1141, the Grand Pont at Paris was assigned to them as their place of business. The name of the Grand Pont was subsequently changed to the Pont-au-change, which preserves the association of the merchants with it. The brokers appear to have frequently changed their quarters; for after they left the Pont-au-change we find them located for a time at the Palais de Justice, then in the famous Rue Quincampoix (which correspond to our 'Change Alley). Later on they obtained a "local habitation" at the Hôtel de Soissons (which is to-day the Bourse de Commerce), and there they remained till 1720, when the place was closed by order of the King's Council. By this time the functions of stockbrokers and ordinary merchants must have become definitely separated, for in a royal decree of 1638 we find the exchange brokers spoken of as Agents de Change.

In 1724 the business of stock brokerage must have considerably increased, both in dignity and importance, owing to the enormous speculation which took place in France about that time in shares of the famous Mississippi Company. Accordingly, in that year, the Paris Bourse was legally instituted by a decree of the King's Council, and its quarters fixed at the Hôtel de Nevers, situated between the Rue Vincenne and the Rue Richelieu, which is at the present time used

as the Bibliothèque Nationale. By this decree the right to do business as stockbrokers was granted to sixty persons. It may be mentioned that the Paris Bourse was not the first exchange to be legally established in France, as, prior to 1724, similar institutions had been officially set up at Lyons and Toulouse.

In 1786 sixty officers were appointed for life, upon payment of a sum to the State, to carry on the business of stockbrokers. This Government monopoly was abolished at the time of the Revolution in 1791. Four years later, however, restrictions upon the business of stockbroking were again introduced, the right to carry on such business being limited to twenty-five brokers. In 1801 the number of brokers was raised to eighty, then in 1816 it was reduced to sixty, and in 1898 it was finally fixed at seventy.

Each of the official brokers has to deposit a sum of money with the Government by way of security. The amount deposited has varied from time to time, having been raised from 60,000 francs in 1801 to 125,000 francs in 1816. By an Imperial decree of the year 1862 it was fixed at 250,000 francs, which is the security required to-day. Each Agent de Change, as the official brokers are called, has to lodge this security with the Minister of Finance, and it is liable for his obligations in the event of his default. He receives 4 per cent. interest on the amount from the Government. No

doubt the granting of this privilege of carrying on stockbroking business, on condition that a sum of money is deposited, is really only a method of raising loans for the State, and the system has sometimes been condemned on this ground. At the same time, it must be confessed that it has one great advantage in protecting the public against defaulting brokers. In spite of all the precautions taken by our Stock Exchange Committee, the default of a member is not by any means an uncommon occurrence, and the suggestion has been made that the example of our French neighbours might well be followed, and each member of the London Stock Exchange required to deposit a sum with the Committee which could be drawn upon in the event of his failure to meet his obligations. It may be noted that this system obtains at Lloyd's.

Each Agent de Change possesses his privileges in perpetuity, and has the right of nominating his successor. As may be readily imagined, official membership of the Paris Bourse is extremely valuable, and a seat in the Parquet (which is the name given to that portion of the Bourse exclusively reserved for the Agents de Change) is said to-day to be worth two million francs.

The number of Agents de Change being limited, the right to operate in the Parquet can only be obtained by purchase. Each seat in the Parquet, however, may be held jointly by as many as twelve persons, although it must be placed in the name

and under the control of one of its proprietors, who alone has the right of actually doing business on the Bourse. Only Frenchmen who are over twenty-five years of age can become Agents de Change. They must be recommended by several bankers and commercial houses of recognised standing, and their election must be confirmed by the Minister of Finance. An Agent de Change is not allowed to speculate or do business on his own account, and is required to keep his books in a prescribed form.

As already mentioned, the main Hall of the Bourse is reserved for the Agents de Change, and is known as the Parquet They stand round a circular railing (*corbeille*), which corresponds to the American "pit." There are two smaller *corbeilles*, or enclosures, one of which is used by the clerks of the Agents de Change for making cash transactions, the other being devoted to dealings for account. A separate enclosure is set aside for the *remisiers*, who solicit business for the Agents de Change.

The rights of the Parquet are described by Article 76 of the Code Commerciale as follows: "The Agents de Change alone have the right to "negotiate public and other securities that may be "quoted in the stock list, or to negotiate for account "of others drafts or bills or any other commercial "paper, and to fix the rates therefor." In practice, however, the Agents de Change do not negotiate bills of exchange or commercial "paper."

The settlement day in the Parquet is at the end of the month for French *rentes*; but with regard to other public funds and commercial securities (*valeurs*), there are fortnightly "accounts," as in London.

The governing body of the Parquet is known as the *Chambre Syndicale*, which is composed of a syndic and eight members. The Chambre Syndicale fixes rates of commissions (which are usually about ⅛ per cent.). It also possesses disciplinary powers over members of the Parquet, and makes general rules for their government.

In addition to the Agents de Change, there is another class of brokers on the Bourse, known as *coulissiers*, who correspond to our outside brokers. Anyone may become a coulissier by paying the licence duty. The coulissiers transact most of their business in small groups under the portico or peristyle of the Bourse, which is known as the Coulisse. By the courtesy, however, of the Parquet, dealings in French rentes are allowed to be transacted by the coulissiers in a corner of the main Hall. The Coulisse commenced to grow in importance at the time of the Napoleonic wars. The railway mania, which was rampant in this country from 1840 to 1846, also considerably affected France, and brought a large accession of business to the coulissiers, whose operations, it should be noted, are mainly speculative. The French Treasury, the Bank of France, the Crédit

Fortier, and the French Railway Companies will not recognise any transfer of their registered or inscribed shares carried through by a coulissier, unless countersigned by an Agent de Change. This, however, is only a formality, for in practice the Coulisse can always secure the signature of one of the Parquet on payment of a small commission. At one time great hostility was shown by the Agents de Change to the unofficial brokers, and in 1859 the Parquet brought an action against the coulissiers, with the result that twenty-six of the latter were fined for encroaching on the functions of the Agents de Change. Harmony was, however, subsequently restored between the two bodies, which now work amicably together.

The coulissiers begin business on the Bourse at 12 o'clock, and continue till 4 p.m. The hours of the Parquet are from 12.30 till 3. In the winter the Coulisse hires a hall from the Crédit Lyonnais, where it holds evening meetings, known as the Petite Bourse.

All the dealings of the coulissiers are "for account"—*i.e.*, for settlement at the end of the month. Their rates of commission are not fixed, but they usually charge only half the commissions demanded by the Agents de Change, and the volume of business done by the Coulisse is said to be almost as large as that in the hands of the Parquet.

The present Bourse was opened in 1826. It is somewhat curious that there is no great financial quarter in Paris corresponding to our Lombard Street, or to Wall Street in New York. The banks and broking houses are scattered all over the city, while shops and warehouses are erected all round the Bourse. Another noteworthy feature of the Paris Exchange is that no business at all is done in American securities. There are, of course, large transactions in Russian, Turkish, and Egyptian bonds, but any dealings in American stocks are invariably carried out through the London Stock Exchange.

Other Foreign Stock Exchanges.

Before passing to a study of Wall Street and its methods, it may be of interest to mention a few points in regard to one or two of the other more important Continental Exchanges.

The Berlin Börse or Exchange is divided into two separate departments—the Stock Exchange (Effektenbörse or Fondsbörse) and the Produce Exchange (Wärenbörse). During the eighties and early nineties there had been a great increase in German speculation, especially in regard to time-bargains, and a Commission of Inquiry on the Exchange was appointed, which sat at Berlin during 1892 and 1893. As the result of its investigations, a drastic law for the regulation of the Börse was passed on the 22nd June 1896, to come into operation on the 1st January 1897, and this

was followed by a Decree of December 4th 1896, entitled "Maklerordnung fur die Kursmakler an der Berliner Borse." Under this legislation the Kursmakler, as the Stock Exchange brokers are called, are placed under Government control, and cannot, without the consent of the State authorities, engage in any other business except stockbroking. In addition to the regular members of the Borse (of which there were 1,329 in 1900), entrance cards are issued to some 3,000 other persons, entitling them to admission. It has been pointed out that, as compared with other countries, comparatively little German capital finds its way abroad, being mostly employed for home purposes. The consequence is that the great Stock Exchanges of Germany (those of Hamburg and Frankfurt coming next to Berlin in importance) devote their operations mainly to "home" investments, such as State and Municipal loans, German bank shares, and industrial stocks. The Borse at Berlin is only open from 12 to 2.30, so that brokers have a fairly easy time of it.

The St. Petersburg Birsha (Exchange) presents some features of special interest. The number of authorised brokers is limited to 56, who must be Russian subjects, and they alone have the right of doing business in Russian Government Stocks. Any broker or banker, however, has the power of introducing any person to the Exchange on payment of a half-yearly subscription. Only Russian securities

are allowed to be dealt in on the Birsha, and operations in these are mainly confined to bank and railway stock.

The chief Italian Stock Exchanges are those of Rome, Turin, Genoa, and Milan. The investments dealt with on these Exchanges cover a fairly wide field, including the Public Funds or National Debt and the State Railways, bank and mining shares, and "industrials." A vast speculation in motor-car shares commenced in Italy in 1905, and continued for two years. The main market for expensive cars was America, and when the great American panic of 1907 took place the demand for these luxuries suddenly ceased, causing a tremendous "slump" in motor shares, which was seriously felt by the speculating public.

CHAPTER XIX.

WALL STREET.

Speculation in America may be said to have commenced after the American War of Independence, which terminated in 1792. The first Congress had issued bonds to meet the debts incurred by the States in war. At the end of 1781 the Bank of North America was established at Philadelphia, and three years later the Bank of New York was founded (February 1784). This was followed in 1791 by the establishment of the first United States Bank.

The foundation of these banks may be said to have given the first impetus to speculation, and a market was soon started for the sale and purchase of their stocks. In 1792 twenty-four persons calling themselves "Brokers for the Purchase and Sale of Public Stock" entered into a mutual agreement to charge not less than ¼ per cent. commission as brokerage. This may be said to have been the origin of the New York Exchange, although the real foundations of the present organisation were not laid till 1817, when the brokers, who until then had been working under the agreement of 1792, formed an association called "The New York Stock and Exchange Board." During the intervening period opportunities for investment and

speculation had greatly increased. In the first place, banks had sprung up with great rapidity. Moreover, in 1807, Robert Fulton had applied steam power to navigation on the Hudson River, and this, accompanied by the construction of canals, resulted in a vast expansion of commerce, and the formation of new companies.

THE fifty years which followed the formation of the "New York Stock and Exchange Board" in 1817 were exceedingly eventful ones in American financial history. It was during this period that Wall Street commenced to acquire the reputation which it enjoys to-day of being the greatest speculative centre in the world. Two events mainly contributed to give America the position which it now holds in international finance. The first was the introduction of steam locomotion and the rapid expansion of the American railway system. The railway mania seems to have affected America before it was felt to any degree in this country. In 1829 a train was, for the first time in America, drawn by a locomotive. By the following year America had thirty miles of railway. In the same year (1830) the first railroad stock—the Mohawk and Hudson—was put in the Stock Exchange List. Eleven years later the railroad mileage amounted to 3,361. Wild speculation in railway stocks took place, and in 1836 "Yankee rails" were introduced into the London market. From this time speculation in railway securities became the chief business of Wall Street, and has so continued to

the present day, although of recent years "industrials" have received a fair share of attention on the part of the New York brokers.

The second cause which led to the growth of speculation in America was the Civil War of 1861-1865. The expenditure on account of the war caused an expansion of the national debt, and a suspension of specie payments This, again, led to the introduction of a depreciated paper currency "Greenbacks," as the paper dollars were popularly called, were poured forth, but the uncertainty of their real value caused the gold dollars to be eagerly sought. A gamble in gold went on for some time, and in 1864 a Gold Exchange was organised, which lasted till 1877. Altogether the speculative instincts of the American public had by this time been thoroughly roused, and it has been said that during the whole period of the Civil War "Wall Street was like a boiling lake of excited speculation."

To the National Banking Act of 1863 Wall Street also owes some share of its present position. By this Act New York was made a central reserve city, where half the reserves of the banks in the rest of the country could be kept on deposit.

The immense business done on the New York Stock Exchange at the time of the Civil War led to the establishment in 1864 of the "Open Board of Brokers," in opposition to the old "Stock and Exchange Board." For a time there was keen

competition between the two bodies, and a great deal of "cutting" in regard to the rates of commissions. In 1869, however, an amalgamation took place between the old and the new Boards, and thus was formed the present New York Stock Exchange.

The New York Exchange is commonly spoken of as "Wall Street," although in fact the present building actually stands on Broad and New Streets, having a wing facing on Wall Street. Wall Street, however, is the great financial quarter of New York, and in its immediate neighbourhood are situated a vast number of banks, insurance offices, and various Exchanges, such as the Produce, Cotton, Coffee, and Metal Exchanges.

The New York Stock Exchange is an unincorporated association of 1,100 members. According to the Constitution of March 1902, "its objects "shall be to furnish exchange-rooms and other "facilities for the convenient transaction of their "business by its members as brokers; to maintain "high standards of commercial honour and "integrity among its members; and to promote and "inculcate just and equitable principles of trade "and business."

In 1869, after the amalgamation of the two Boards, there were 1,060 members of the combined bodies. Ten years later forty additional memberships were created, bringing the number up to 1,100. By the present Constitution no further increase in

membership can take place, except by the authority of the Governing Committee, with the approval of a majority of members. Membership can only be obtained by the purchase of the "seat" of a deceased or insolvent member, or of some member who is retiring from business. Every new member pays an "initiation fee" of 2,000 dollars on admission, in addition to the cost of the seat. The latter varies according to the state of the stock market, having been as low as 2,750 dollars in 1871, and as high as 80,000 dollars in 1901. Any member can transfer his seat, subject to the approval of the Committee on Memberships.

The government of the Stock Exchange is vested in the President, Treasurer, and a Governing Committee of forty members, divided into four classes, the first being elected for one year, the second class for two years, the third and fourth classes for three and four years respectively. In addition to the Governing Committee, there are various other Committees, which deal with different points of administration. Stringent regulations are laid down in regard to the conduct of members. Any broker guilty of fraud is expelled, while those who are unable to fulfil their obligations are suspended. Commissions are rigidly fixed. Any member connected with any association in New York which deals in securities similar to those listed on the Exchange is liable to expulsion. One of the most important Committees is the Committee on Insolvencies, for its

duty is to investigate every case of insolvency as soon as it is announced. If it appears that the failure has been brought about by rash and hazardous dealings, this is reported to the Governing Committee, and the defaulting member may be declared ineligible for reinstatement, even though he should subsequently settle with his creditors.

The 1,100 members of the New York Exchange do not all act as brokers. Many of the great financial magnates never cross the floor of the Board Room (as the Exchange is sometimes called), but employ brokers to transact their business, and are thus themselves principals. Membership of the Exchange enables them to obtain lower rates of commissions than they would otherwise do.

All over the Board Room are fixed posts bearing placards, on which are printed the names of stocks. Each security has its own allotted spot, just as on the London Exchange the brokers in different stocks take up a certain position on the floor of the House. When dealings take place no written contract passes between the brokers, who simply make a note of the transaction upon pads provided for the purpose.

Contracts can only be made as follows :—

(1) For cash, *i.e.*, for delivery and payment on day of sale.

(2) "Regular way," *i.e.*, for delivery on the day following the sale. Most transactions are on this basis.

(3) At three days, *i.e.*, for delivery on the third day following the making of the contract.

(4) Buyers' or sellers' options for not less than four days nor more than sixty days.

There are two main divisions in the Wall Street Stock List—railroads and industrials. Railroad Stocks are subdivided into groups representing systems, *e.g.*, the Trunk Line Group; the "Coalers," which carry anthracite coal; the "Grangers," which serve the grain-producing part of the country; and the Transcontinental Group, which covers the territory from the Middle West to the Pacific. Industrials are split up into groups representing manufacturing, mercantile, oil, gas, electric, and other companies.

A distinctive feature of Wall Street is that dealings there are practically confined to securities of the United States, the reason for this being that the resources of the country are so manifold that there is no need for speculators to go further afield. Of recent years, however, there has been a marked tendency in the direction of widening the sphere of operations. Some important foreign loans have been launched from Wall Street, and there has been a small market for Consols, German Imperial bonds, and Government securities of other countries, while American capital has found its way to Europe and Asia.

INDEX.